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Alghan rebels, in Pakistan, attend a rally after rejecting the government cease-fire proposal.

Kabul Bid Rejected By Rebels

Guerrillas Vow To Continue War

By Kamran Khan Washington Post Service PESHAWAR, Pakistan — Tens of thousands of Afghan refugees and guerrillas have refused a call by Afghanistan's Soviet-backed government to lay down their weapons...



Chinese buying Beijing newspapers for news about the resignation of Hu Yaobang.

Iranians Press Raid On Basra

Claim Advances 'Deep Inside Enemy Lines'

By John Kifner New York Times Service NICOSIA — Iran claimed Sunday that its troops had advanced "deep inside enemy lines" in heavy fighting close to an oil refinery just south of the major southern Iraqi city of Basra.

LATE NEWS

Israel Sets Sum In UNIFIL Death

TEL AVIV (UPI) — Israel has offered to pay a "substantial sum" to the family of an Israeli officer in the United Nations peacekeeping force who was killed by Israeli troops in a "shameful mistake" in Lebanon, Israel radio said Sunday.

Contra Arms Deals Traced to Lisbon

By Karen DeYoung Washington Post Service LISBON — Portuguese arms and ammunition worth \$5.6 million, obtained with apparently false documents by U.S.- and Canadian-based companies, were purchased in 1985 and 1986 for the use of rebels in Nicaragua, according to U.S. and Portuguese sources.

Zhao Declares Hu's Removal Signals No Change in Policy

BEIJING — Zhao Ziyang, the acting Communist Party leader, said Sunday that the removal of Hu Yaobang as party leader would have no effect on Chinese policies and that fears of political instability were unwarranted.

In France, a Bit of Charity Creeps In With the Cold

Public More Alert To Social Misery By Richard Bernstein New York Times Service ISSY-LES-MOULINEAUX, France — At noon, there were several hundred people, among them unemployed artisans wrapped in leather jackets and scarves, homeless men with tattoos and five days of stubble, women with children in tow, crowded into the line at the Restaurant of the Heart.

Ecuador's Leader Freed In Exchange for General

By Joseph B. Treaster New York Times Service GUAYAQUIL, Ecuador — The president of Ecuador, León Febres Cordero, was released by a group of air force commandos after agreeing to free an imprisoned air force general and promising there would be no retribution against his abductors.

Kenya Abuses Dissidents, U.S. Legislator Asserts

UNITED PRESS INTERNATIONAL NAIROBI — An American congressman involved with U.S. relations with Africa sharply criticized Sunday the human rights record of Kenya, one of the major recipients of U.S. aid in Africa, and said he had witnessed political intimidation in Nairobi.

2 Jailed Shiites Part of Plot in Europe, Officials Fear

By Roberto Suro New York Times Service ROME — Two Lebanese men arrested last week carrying explosives through the Milan and Frankfurt airports may have been part of a new terrorist offensive planned by radical Lebanese Shiites, according to American and Italian officials.

GENERAL NEWS A West German businessman was abducted by gunmen near the airport in Beirut. Page 2. The Klan disrupted a march aimed at attracting blacks to a Georgia county. Page 3. Indian police entered the Sikhs' Golden Temple and arrested several persons. Page 4. President Corason Aquino offered peace talks to Muslim rebels whose attacks last week killed 46 persons. Page 2. BUSINESS/FINANCE Fomento AB's managing director resigned. Page 13. USX Corp. and the steel workers' union reached a tentative agreement that would end a lengthy strike. Page 12.

Documents made available in Lisbon, which were supported by interviews here and in Washington, suggest that the arms purchases were handled by the same network of retired military and intelligence officers that was involved in the Reagan administration's secret arms sales to Iran and efforts to resupply the contras. Portugal has emerged as an important link in the Iran arms deal and the effort to resupply the contras. Iran-bound U.S. weapons passed through Lisbon on their way from Israel and from the United States itself, according to records and sources in Washington. The Portuguese government has said that whatever role its country played in either operation was an unwitting one. The Portuguese government approved the 1985-86 arms sales based on "end-user certificates" purportedly supplied by the Guatemalan government and submitted in Lisbon through a local arms dealer. The certificates list requested types and quantities of arms and Reagan has not been questioned about arms sales to Iran since November. Page 3. ammunition, and state that the material is for the exclusive use of the Guatemalan military. Typed on official stationery, the certificates bear the signature of General Cesar Augusto Caceres Rojas of the Guatemalan Army. Last week, Guatemalan officials denied any connection with the shipments. President Marco Vinicio Flores said. See ARMS, Page 4.

Guerrilla officials said Sunday that Afghan troops attacked rebels in several parts of Afghanistan despite Kabul's unilateral declaration of a cease-fire. The Associated Press reported. See AFGHAN, Page 4.



Two homeless Parisians spent the night on a ventilation grid instead of going to a shelter.

Two days after Mr. Hu was forced to resign for mistakes committed on "major issues of political principles," the government-controlled press has given no further explanation. The press has acted almost as if nothing had happened. Diplomats said this silence may reflect the haste with which top leaders decided to force Mr. Hu to resign. They suggested that the leaders had not resolved all their differences. See CHINA, Page 4.

Both sides reported that Iran repeatedly struck the key southern Iraqi port of Basra with missiles and artillery fire. Iran claimed much of the population was fleeing Basra, with a population of 1.5 million, is Iraq's second-largest city. Iran said Sunday that its troops had established positions only 400 yards (365 meters) — within small-arms range — from an Iraqi oil refinery and petrochemical plant at Basra. See WAR, Page 4.

Mr. Febres Cordero said Saturday that he was punched, kicked and told repeatedly he was going to be killed during the 12 hours he was held captive Friday at the Taura Air base near here. Lieutenant General Frank Vargas Pazos, a former air force commander, arrived at the air base about an hour before Mr. Febres.

People come each day to fill plastic bags with frozen chicken, boxes of cereal, tangerines and bread. They show their pink identification cards to the center's director, Claude Colombani, a computer operator who has been out of work for two years, or to Albin Arman, a 54-year-old self-described hobo who says he has been sleeping outdoors, even in the bitter cold, for more than a year. The scene is a reminder of what the French generally refer to as "the crisis." By that they mean economic problems, particularly an intractable national unemployment rate of more than 10 percent. That figure includes a growing number of people, well represented at the Restaurant of the Heart, who have been out of work so long that their unemployment checks have long since stopped coming. But the folks in the tent in Issy-les-Moulineaux also reflect something new in France, which according to government officials and others has a less developed tradition of private charity than most countries in the industrialized West. "In France we've always had the sense that it was the state that would protect us," said Jean-Michel Vagnely, the president of the Restaurants of the Heart organization. "But in recent years, it's become clear that the state does not manage to take care of all the members of the public." There are 630 Restaurants of the Heart throughout France serving 650,000 people every day. No questions are asked. The number of family members is simply checked by people like Mr. Colombani or Mr. Arman, who examine each visitor's Social Security papers. The restaurants were created by a popular French actor and comedian, Coluche, who died last year in a motorcycle accident. Coluche had enlisted the support of many French entertainers for the establishment of the restaurants. See FRANCE, Page 4.

Mr. Hamadei, 22, is one of four Lebanese Shiite Muslims charged by the United States with piracy, murder and other criminal offenses in the TWA hijacking, during which a U.S. Navy seaman, Robert D. Stejtham, was killed. [According to the sources, prosecutors said that to win Mr. Hamadei's extradition to the United States, they had to agree not to seek the death penalty.] Italian officials say Mr. Khodr is known to have associated with seven men arrested in 1984 on charges of plotting to blow up the U.S. Embassy in Rome. The Italian interior minister, Oscar Luigi Scalfaro, said Friday that information supplied by Italian intelligence agencies seemed to establish a link between the two men. Mr. Scalfaro also said one hypothesis was that they had planned to attack a prominent visitor to Rome, King Hussein of Jordan during a three-day visit to Rome on Saturday. Other Italian officials and an American diplomat involved in anti-terrorism efforts said investigators had not determined with certainty whether Mr. Khodr and Mr. Hamadei were involved in the same operation. Nonetheless, police and intelligence officials in Europe are acting on the assumption that the actions of the two men indicate "some kind of a pattern," the U.S. diplomat said. Antonio Badini, foreign affairs counselor to Prime Minister Bettino Craxi, said that, in light of the arrests, Italian anti-terrorism forces were re-evaluating a variety of warnings, threats and intelligence reports received in recent weeks. Among the most disturbing reports was an intelligence report that five people had or were about to leave Beirut to undertake terrorist actions in Europe. Judge Rosario Priore, a Rome magistrate involved in many terrorism prosecutions, said that investigators were particularly anxious to determine whether Mr. Khodr and Mr. Hamadei were going to use terrorism. See TERROR, Page 2.

Mr. Wolpe, who had planned to meet with President Daniel arap Moi and two cabinet ministers, said he was told the officials were "not available." Mr. Wolpe declined to say whether he felt Secretary of State George P. Shultz had failed to address the human rights issue during his recent visit to Kenya. Mr. Wolpe called for the release of a university lecturer, Maina wa Kinyari, who was sentenced to six years' imprisonment in 1982 on charges of "possession of seditious publications." Dozens of Kenyans have been arrested in recent months during a government crackdown on dissidents.



León Febres Cordero

President Febres Cordero was seized with nearly 30 others at the start of a military review at the Taura Air Base. In an interview, he said that at the point when the commandos were to present arms, they opened fire in the direction of the president's party. Security guards next to him on the left and right were wounded, he said, and two others some distance away were killed. Ten other persons were reported injured in the incident. "My first reaction was to shout, 'What the hell is going on here?'" Mr. Febres Cordero said. "Then my security people tried to throw me down." Moments later, he said, two commandos trained their guns on him and yanked him to his feet. As they led him to a bus, he said, they kicked, shoved and cursed him. "I said, 'Don't touch me, I'm the president.'" See FREED, Page 4.

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PEOPLE Mr. Blackwell... His friends...

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West German Is Seized Near Airport in Beirut

Abduction Follows Arrest in Frankfurt Of a Lebanese Suspected in Hijacking

United Press International
 BEIRUT — Guzman kidnapped a West German citizen minutes after he left the Beirut airport, security sources said Sunday.
 The sources said that several gunmen abducted Rudolf Cordes, an executive of Hoechst AG, the Frankfurt chemical and pharmaceutical company, in a mainly Shiite neighborhood near Beirut.
 The kidnapping Saturday took place 15 minutes after Mr. Cordes arrived at the Syrian-guarded airport on a flight from Frankfurt, the sources said. It appeared to be the first abduction of a West German citizen in Lebanon.
Bonn Confirms Abduction
 Robert J. McCartney of *The Washington Post* reported from Bonn.
 An anonymous caller phoned the West German Embassy in Beirut on Saturday and said that a West German citizen had been abducted, but the caller made no demands, the Foreign Ministry said in a statement on Sunday.
 A spokesman declined to speculate about the abductor's motives but another official said privately it seemed likely that the kidnapping was in retaliation for the arrest last week in Frankfurt of a Lebanese suspected of being a terrorist.
 The ministry declined to identify the kidnapped man, but two West German newspapers reported he was Mr. Cordes.
 A Hoechst spokesman said that Mr. Cordes was on a business trip to Beirut and that further details would be available on Monday.
 Officials in Bonn said Friday that the government was concerned about the possibility that West Germans might be abducted by ex-



Police in Jerusalem arresting two Palestinians after the Jewish brothers were stabbed in the Old City. The authorities detained 50 Arabs for questioning, but released them later.

Arabs Stab 2 Jews in Old Jerusalem; Police Move to Prevent Retaliation

By Glenn Frankel
Washington Post Service
 JERUSALEM — Arab assailants stabbed two young Jewish brothers inside Jerusalem's Old City, and the authorities took precautions to prevent retaliation against Arabs.
 Police detained at least 50 Arabs for questioning after the attack on Saturday, but released them later.
 Dozens of riot police massed outside Damascus Gate as a precaution against a repetition of the stone-throwing, vandalism and looting by Jewish crowds that followed the stabbing deaths of a 13-year-old boy and a 12-year-old girl in November. Three Arab youths were convicted of that murder.
 A police spokesman said the brothers, 25, and Shalom Oshayon, 16, were walking on a main street of the Muslim Quarter near the Damascus Gate when they were attacked from behind by two young Arabs.
 The assailants stabbed Avi in the neck and Shalom in the shoulder and then fled. The brothers managed to get the gate 500 yards (450 meters) away, where a police patrol called an ambulance. The fiancée was not hurt.
 An official at Sha'are Zedek hospital said Avi had lost much blood from several neck wounds but was in fair condition after surgery. His brother's wounds were not considered serious.
 In December, an elderly Jewish man returning from prayers at the Western Wall was stabbed. His assailants have not been caught.
Tighter Security Ordered
 Prime Minister Yitzhak Shamir said Sunday that Israeli police had been ordered to improve security in Jerusalem after the stabbing of the two Oshayon brothers, Reuters reported from Jerusalem.
 "Police have orders to strengthen security, to increase their guard and alertness, and we will use all means to ensure such incidents do not recur," Mr. Shamir said after visiting Avi Oshayon in the hospital.
 Teddy Kolek, the mayor of Jerusalem, appealed to fellow Jews not to attack Arabs or their property.

Warsaw Takes Big Step Out of Diplomatic Isolation

By Jackson Diehl
Washington Post Service
WARSAW — The government of General Wojciech Jaruzelski appears to have achieved a breakthrough in ending Poland's long-standing diplomatic isolation.
 Prime Minister Yasuhiro Nakasone of Japan, on a four-nation trip through Eastern Europe, met with General Jaruzelski and Prime Minister Zbigniew Messner on Friday for talks that both sides termed successful. Officials said discussions focused on Warsaw's desire for expanded economic cooperation with Japan, but no concrete agreements were discussed.
 The visit, the first by a Japanese prime minister to postwar Poland, came in a week in which General Jaruzelski carried out a two-day trip to Italy in his first official visit to a Western country since the suppression of the Solidarity independent trade union five years ago.
 While in Rome, the general also met with Pope John Paul II at the Vatican, an event the pope termed "undoubtedly historic."
 Polish officials and the state-run media have described the diplomatic activity as a major success that has marked a turning point in the country's international relations.
 "The proclaimed Polish-Japanese top-rank political dialogue," said the daily *Zycie Warszawy*, "additionally confirms a fact most important to us: We are witnessing an evident restoration and consolidation of Poland's international position, shaken by the crisis of 1980-81."
 Ending the longstanding freeze on diplomatic contacts and economic assistance to Poland by Western countries has been a priority of the Jaruzelski government as it seeks to manage a \$30-billion

Farewell to Arms for Uganda Youth

Reuters
KAMPALA, Uganda — Monday is back-to-school day for hundreds of Ugandan child soldiers who interrupted their formal education to take up arms and fight in President Yoweri Museveni's National Resistance Army.
 The children, known locally by the colloquial Swahili word *bakadoko*, or little ones, have received their demobilization orders from army headquarters after up to five years of guerrilla war against the government of former President Milton Obote.
 An army spokesman in Kampala said the youngsters, some of them under 10 years old, should put aside their guns, take off their



A soon-to-be decommissioned child soldier.

TERROR: 2 Jailed Shiites Part of Plot, Officials Fear Media Group Acts to Fight Censorship

(Continued from Page 1)
 established support networks that have yet to be uncovered.
 "These kinds of people do not operate alone," the judge said. "They have to have somewhere to hide the explosives and somewhere to plan their operations."
 Mr. Khobar and Mr. Hamza appear to have lived in Europe for several years. That information supports the suspicion among many investigators that a Lebanese Shiite terrorist network is already functioning in Europe.
 One difficulty in evaluating the significance of the two arrests derives from the complex and not clearly understood structure of Lebanese Shiite groups.
 The key question, according to U.S. and Italian investigators, involves the relationship between two of the most important groups:
18 Missing Off Spanish Coast
BARCELONA — A Maltese-registered cargo ship sank Saturday in the Mediterranean off the coast of northeastern Spain, and 18 of its 20 crewmen were missing, a coast guard official said. He said the 4,500-ton *Kyrenia Star* sent out a distress call before sinking, apparently after its cargo of iron bars shifted in heavy seas.
Trial to Open in Italy Blast
 with subversive activity aimed at terrorism and overthrowing democracy. They include Licio Gelli, the head of the outlawed Masonic lodge, Propaganda Due, or P-2; who is a fugitive; and General Pietro Musumeci and Colonel Giuseppe Belmonte, two former military intelligence officers; and a rightist extremist, Stefano Delle Chiaie.
 A former secret service agent, Francesco Pazienza, who was extradited from the United States in June, has been charged separately with subversive association. Prosecutors are likely to try to combine his trial with the others.
Amal, a large Beirut-based, political-military organization in the Lebanese political mainstream that is said to be linked to Syria; and Hezbollah, or Party of God, which originated in the Bekaa region of Lebanon that has a more clearly Islamic fundamentalist ideological base and appears to be supported by Iran.
 The U.S. authorities believe that the 17-day TWA hijacking began as an operation conducted by Hezbollah. Later, however, the leader of Amal became the chief intermediary and Amal appeared to take over the operation.
 Similarly, the purported plot to blow up the U.S. Embassy in Rome in 1984 may have involved both Amal and Hezbollah, according to U.S. and Italian officials.

Shultz's Goals in Africa Building Markets, Cutting Soviet Influence Were Among Priorities

By David K. Shipler
New York Times Service
WASHINGTON — Giving foreign aid is the process of doing good for somebody else in pursuit of your own self-interest. That seemed to be the governing proposition of Secretary of State George P. Shultz's trip to six countries in Africa that ended last week.
 As he arrived at one airport or presidential palace after another, Mr. Shultz stressed Washington's desire for "partnership" in helping the Africans help themselves.
 Pure altruism was rarely mentioned as he and his aides offered a list of motives for providing American money to countries whose people suffer from poverty, illness and malnutrition.
 The Reagan administration is interested in minimizing Soviet influence, maximizing markets for American exports, securing the sources of raw materials for American industry, and seeing developing countries remake their economies in the American image.
 Economic and strategic concerns drive the European colonial powers into Africa in an earlier era. Now, 20 to 30 years after the colonies gained independence, the industrialized nations must try to woo Africans with aid and encourage steps to make Western investment safe.
 That was Mr. Shultz's mission as he traveled to Senegal, Cameroon, Kenya, Nigeria, the Ivory Coast and Liberia. It was the first time that a secretary of state in the Reagan administration had visited sub-Saharan Africa.
 As he flew there, he reflected on what priority he would give the strategic, economic, ideological and altruistic factors in determining American aid to Africa.
 "There's nothing wrong with wanting to help people and see them do better," Mr. Shultz said. "So in saying that I believe the things we're seeing are in the American interest and that's our primary motive, I don't want to be knocking generosity."
 "But I think it's important to be more hardheaded than that. So I think that it is in our interest to see countries become market-oriented in their economic system. It relates itself to openness and democracy, a form of government that we think is not only good for the people involved but basically good for us.

WORLD BRIEFS

U.S. Lifts Ban on Drill Sales to Soviet

WASHINGTON (UPI) — The Reagan administration, responding to pressure from the domestic oil and gas industry, has lifted controls on the export of drilling equipment to the Soviet Union that were imposed in 1978 to force a change in Soviet human rights policy.
 Officials emphasized that the Soviet Union has shown no improvement on human rights. Instead, Commerce Secretary Malcolm Baldrige said Thursday that the controls were being lifted because they "have lost their impact in the face of widespread foreign availability of like products" and have had a "debilitating effect" on the American oil and gas industry.
 Mr. Baldrige said the decision to lift the controls was made in conjunction with Secretary of State George P. Shultz, and "despite our dissatisfaction with Soviet human rights efforts."

Talks Collapse on EC's 1987 Budget

BRUSSELS (Reuters) — European Community budget ministers have failed to agree on spending levels for 1987.
 The collapse of the talks leaves the 12-nation group operating on an emergency financing system that is insufficient to cover its needs and opens the possibility of a damaging conflict with the European Parliament, diplomats said Saturday. In December, the Parliament proposed a budget totaling \$40 billion.
 The ministers were unable to bridge differences between wealthy industrial countries and the Mediterranean countries over demands from the Parliament for more nonagricultural expenditure.

Seoul Reports Dissident Was Tortured

SEOUL (Reuters) — A South Korean student dissident who died while in detention for anti-government activities was tortured by the police, state radio reported Sunday.
 The report said that two police investigators had admitted torturing Park Jong Chol, 21, during an interrogation. A police spokesman said that an official announcement on the death was expected Monday as the results of an autopsy on Mr. Park's death Wednesday become available. The officers face life imprisonment if they are found guilty of torturing the student, state prosecutors said.
 The New Korea Democratic Party, the main opposition group, demanded Saturday that the parliament hold a special session to discuss the death. The party said the case was only the "tip of the iceberg" of human rights violations by the government of President Chun Doo Hwan.

French Aide Denies He Met With Suspect

PARIS (IHT) — Interior Minister Charles Pasqua denied on Sunday reports that he may have met with the principal suspect in a corruption case involving figures in France's former Socialist government.
 French radio and television stations reported that Yves Chaher, who is a former aide to the cooperation minister and is in jail awaiting trial, told the examining magistrate in the case Saturday that he had met with Mr. Pasqua before fleeing France for Latin America in April.
 Mr. Chaher, who was arrested in November after returning to France on a passport issued in a false name, is under investigation for the embezzlement of funds intended for Third World development.
 Mr. Pasqua said in a one-sentence statement: "I deny all information concerning a meeting with Yves Chaher."



Charles Pasqua

Soviet Activist's Wife On Way to U.S.

MOSCOW (UPI) — Inna K. Meiman left Moscow on Sunday to undergo cancer treatment in the United States.
 Mrs. Meiman, 54, was to spend a night in Vienna before flying Monday to Washington, where she will begin treatment at Georgetown University Hospital. She has undergone four operations for a tumor on the back of her neck, but Soviet physicians have been unable to halt its growth.
 Her husband, Naum, 75, a mathematician and founding member of a group to monitor Soviet compliance with the 1975 Helsinki accords on human rights, silently begged his wife, refusing to talk about his own efforts to leave the country. He has been refused permission to emigrate for almost 12 years.

Kemp Said to Set Date for Candidacy

BUFFALO, New York (UPI) — Representative Jack F. Kemp of New York plans to announce his candidacy for the 1988 Republican presidential nomination April 6, it was reported Sunday.
 Mr. Kemp will give up the chairmanship of the House Republican Caucus to devote more time to his candidacy. The Buffalo News reported. He has held the post since 1981. Mr. Kemp announced Friday he would give up his post as ranking Republican on a House appropriations subcommittee. The newspaper reported that Mr. Kemp will hold press conferences April 6 in Washington and Buffalo and in the key primary states of Iowa and New Hampshire.
 Mr. Kemp, a 51-year-old former professional football player, has been a member of Congress since 1970. Last month, he announced the creation of a committee headed by Charles Black, a veteran Republican strategist, to explore a presidential bid.

For the Record

Israel should maintain its economic and military links with South Africa despite U.S. pressure for it to adopt sanctions, panel of experts has recommended. Israeli news reports said Sunday. (AP)
 The United States is reported close to establishing diplomatic relations with Mongolia, a Soviet ally on the Soviet-Chinese border. "We are having discussions with Mongolia about normalizing relations," Charles E. Redman, the State Department spokesman, said Friday. (AP)
 Senegal has turned down requests from both the Chadian government and the Libyan-backed rebels for military facilities, Prime Minister Saidou el-Mahdi of Sudan said Sunday. (AP)
 Six Tamil militants and eight soldiers were killed Saturday when two Sri Lankan Army helicopters attacked a rebel post near the northern city of Jaffna, a spokesman for the rebels said Sunday. (AP)
 Ali Akbar of the Iranian Foreign Ministry arrived in Paris on Sunday for talks with the French government that are expected to focus on ways of improving ties. France has expressed concern over progress toward the release of French hostages in Lebanon. (Reuters)

DOONESBURY



Since November, Reagan Has Faced No Iran Questions

By David Hoffman and Lou Cannon
Washington Post Service

WASHINGTON — President Ronald Reagan has not been questioned since November by his staff or others about his recollections of the decision to sell arms to Iran, a White House spokesman said.

"So far as I know, there has been no effort yet to do that," the spokesman, Albert R. Brashear, said Friday. He said Mr. Reagan would not be questioned until aides have put together their report on what happened in the clandestine shipment of weapons to Iran.

The president should not be asked to comment, certainly, until such time as the aides have been able to "sort it all out," Mr. Brashear said. "I don't think it is fair that he be asked to do that."

Mr. Brashear said the White House counsel, Peter Wallison, and the president's special counsel on the Iran-contra affair, David M. Abshire, were assembling information to "indicate what exactly transpired."

"Until such time," he said, "it's my understanding there is no intent to go to the president with each thing that they uncover, each thing that they review, but rather to wait until the process is complete."

He said the process included investigation by Congress, the independent counsel, Lawrence E. Walsh, and the president's commission on the National Security Council, headed by John G. Tower.

Later Mr. Friday, Mr. Abshire issued a statement saying Mr. Reagan "is continuing to follow closely" the efforts to compile facts about the controversy. He said that Mr. Reagan met with him this week and will continue to meet with him, and that Mr. Reagan "remains committed to his pledge to the American people that they get all the facts."

A White House statement issued after the meeting said the two men discussed three objectives: accelerating release of information to the separate investigations; establishing "positive" relations with Congress; and maintaining a "bipartisan focus" during the inquiries.

It made no mention of any dis-

ussion about Mr. Reagan's recollections of the Iran decisions.

The president has not met with reporters since the Nov. 25 announcement that money from arms sales to Iran was diverted to the Nicaraguan rebels. Mr. Reagan has said he did not know about the diversion until informed of the results of an investigation by Attorney General Edwin Meese 3d. Mr. Meese apparently was the last official to question the president about the affair.

The White House chief of staff, Donald T. Regan, who participated in the Iran arms sales decisions but also said he did not know of the diversion, has also been unavailable for comment on any subject since then.

Many questions have come to light since Nov. 25 about Reagan's role.

One concerns the policy objectives of the arms sales to Iran. Last week, the White House made public a Jan. 17, 1986, memorandum prepared for Mr. Reagan that called the sales "the only way to free" U.S. hostages in Lebanon.

Mr. Reagan was given an oral briefing on the document, according to a notation by Admiral John M. Poindexter, his national security adviser at the time.

Another key question is whether the president approved in advance the shipment of weapons to Iran through Israel in 1985. For Israel to send the weapons without presidential approval would be against U.S. law. Top advisers have given conflicting accounts on the question.

White House aides have refused to make public additional documents to shed light on these and other questions.

Mr. Brashear was whether the president was "involved" in the investigation and replied: "He is not sitting down devoting all his time to reviewing what is behind him. The president is looking forward, as he must in his job of carrying out the last two years of his term in office."

A White House official said Friday that Mr. Reagan's State of the Union Address on Jan. 27 would be oriented toward the future.

AMERICAN TOPICS

Blacks Providing Democrats' Margins

In all nine presidential elections since Harry S. Truman won in 1948, the Democratic nominee has won a majority of the white vote only once, when Lyndon B. Johnson overwhelmed Barry Goldwater in 1964. These nine contests produced only two other Democratic victories: John F. Kennedy's in 1960 and Jimmy Carter's in 1976.

In the 1986 Senate elections, in which the Democrats came back from four years in the minority to win a five-seat majority, black voters provided the clear margin of difference for the party's nominees in Alabama, Georgia, Louisiana and North Carolina, The New York Times reports.

The figures come from the Joint Center for Political Studies, a research group in Washington that is studying black political influence. The center concluded in a newsletter that for the Democratic Party to win the presidency in 1988, it "must be capable of putting together a coalition that includes at least a substantial proportion of whites," about 40 to 45 percent, and of "maintaining its nearly unanimous black support."



TAKING THE RAP — Shannon Burns, 10, with her account passbook in San Jose, California, after the Internal Revenue Service placed a lien on her savings of \$694 to collect back taxes owed by her father. The IRS relented after she complained to a newspaper.

Notes About People

Governor Michael S. Dukakis of Massachusetts, a potential Democratic nominee for president, likes to remind audiences that Boston, the state capital, has traditionally been known as the Athens of America. He then pauses and smiles slowly as the double meaning sinks in: the governor himself is of Greek ancestry.

Vic Damone, 58, the crooner, and Diana Carroll, 51, an actress currently

starting in television's "Dynasty," were married in Atlantic City, New Jersey, each for the fourth time.

Short Takes

Gunfire killed nearly two-thirds of the 97 law enforcement officers who died in the line of duty in 1986, according to the National Association of Chiefs of Police. Sixty-one officers died of gunshot wounds, 21 in traffic accidents and 11 in plane crashes. Two died in a bomb explosion, one drowned in a rescue attempt and one died of a heart attack while chasing a felon. The figures changed very little from 1985, when 100 officers were killed, including 64 of gunshot wounds and 26 in traffic accidents.

Shorter Takes: Of the 52 Americans held hostage for 444 days in Iran, 51 have received special bonuses voted by Congress of \$50 for each day of captivity, or \$22,200 each. The 52nd hostage was not a government employee and was not eligible. • Public school pupils in Hattiesburg, Mississippi, who get straight A's receive a laminated "Gold Card" entitling them to discounts on hamburgers, pizza, videocassette rentals, sporting goods and clothes at local stores. • Applications are up 10 percent at the U.S. Naval Academy at Annapolis, Maryland. A spokesman attributes this, at least in part, to the hit film "Top Gun" and the best-selling novel "The Hunt for Red October," both about the navy.

A Practical Guide To Marital Brevity

A handbill placed under the windshield wiper of Amy J. Haimm's car in Lawrence, Long Island, and reported to The New York Times: GOING OUT OF MARRIAGE SALE AND WHAT WE CAN'T SPLIT UP! WE'RE SELLING! EVERYTHING LIKE NEW (IT ONLY LASTED THREE MONTHS) —ARTHUR HIGBEE

Klan Backers Block 'Brotherhood' March in All-White County

Goal of Walk Was to Welcome Georgia Blacks

By Dudley Clendinen
New York Times Service

CUMMING, Georgia — When Charles A. Blackburn moved to this lily, rustic area in north Georgia five years ago from the San Francisco Bay area, he thought it was a perfect balance: a cabin on a lake in woody country just 30 miles north of metropolitan Atlanta.

Mr. Blackburn is a white man, and he did not notice at first, so close to that city of racial harmony, that there were no black people here in Forsyth County.

He did not know the reason. But when he tried to persuade a black woman's club in Atlanta to take some of the human development courses he teaches, along with karate and meditation classes, the club president pulled her group and none of them would set foot in Forsyth County.

Nor would black friends from Atlanta drive up to have dinner with him, he said.

Not since the black population was driven from the county in 1912, he discovered, has anyone of that color felt welcome here.

Because that bothered him, Mr. Blackburn decided to organize "a walk for brotherhood" on Saturday morning. He just wanted to demonstrate, he said, "that it would be O.K. for black people to come visit in Forsyth County."

"That is when the threats began, and they proved to be harbingers of the walk's disruption Saturday by hundreds of robed Ku Klux Klan members.

The county's leadership has stepped forward to denounce the threats, which Mr. Blackburn had recorded on tape.

"Anti-Christ!" one voice hissed. Another male voice, low and menacing, said, "I got a 30.06 bullet with your name on it."

But it was the women who were the most volatile. "I just don't think it's a good idea for you to try to get the niggers to come up here," said one. "That's why we live in Forsyth County: to get away from them."

Another woman, her voice crinkly with age, said: "You know what I think? I think you better move out of this county. I know one person whose house was burned, so you'd better watch out."

Three-quarters of a century ago, it was the blacks who moved out.

In September 1912, after a rape so brutal that its victim, a young white woman, died of her injuries, one of three young black men she had named as her attackers was left



A Ku Klux Klan member with a Confederate flag and others shouting racial epithets during the march.

Whites Hurl Rocks and Bottles; 8 Arrested

New York Times Service

CUMMING, Georgia — A large crowd of Ku Klux Klan members and supporters throwing rocks, bottles and mud blocked a "brotherhood anti-intimidation march" through a county that for decades has had no black residents.

Several of the estimated 75 black and white marchers were struck by the objects, but no serious injuries were reported. Eight persons from the group that jeered and threw objects were arrested.

The Forsyth County march was planned to mark the Jan. 15 birthday of the Reverend Martin Luther King Jr., the civil rights leader slain in 1968. It was led by Hosea Williams, an Atlanta city councilman and former aide to King.

An estimated 800 to 1,000 whites, including about 100 members of the Ku Klux Klan, gathered in opposition to the march. They listened to a speech by J.B. Stoner, a white supremacist who was released from a federal prison in November after serving three and a half years of a 10-year sentence for participating in the 1958 bombing of a black church in Birmingham, Alabama.

Norman A. Baggs, editor of The Forsyth County News, said the old animus was diminishing as the years pass and new residents arrive. But the county is not singular in being a refuge for whites, he said.

"Niggers bring crime and AIDS," Mr. Stoner told the cheering crowd, "and we don't need crime or AIDS in Forsyth County."

After the violence, directors of the Martin Luther King Center for Nonviolent Social Change asked supporters to be ready to mobilize for a major march in Forsyth County "if it becomes necessary."

"We feel very strongly about the right to make a nonviolent march, as we did throughout the '60s," said King's widow, Coretta Scott King. "We have a right to march without being beaten up."

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NSC Commission Finds Little New Evidence

By Susan F. Rasky
New York Times Service

WASHINGTON — Less than two weeks before its report is due, the White House panel examining the National Security Council's role in the Iran-contra affair has uncovered almost no new information.

President Ronald Reagan named the three-member review panel, headed by former Senator John G. Tower of Texas, in November after saying he had not been fully informed that as much as \$30 million from American arms sales to Iran may have been diverted to the Nicaraguan rebels.

In addition to Mr. Tower, the other members are former Secretary of State Edmund S. Muskie, and Brent Scowcroft, a former national security adviser.

According to administration sources familiar with the panel's work, the report is being prepared without access to the individuals and financial records the panel sees as crucial.

According to the Justice Department, the earliest such records might become available would be mid-February, assuming the Swiss government agrees to waive its strict privacy rules and grant the administration's request for access to the accounts.

Lacking subpoena power, the panel has been unable to compel appearances by several central figures in the affair.

These include Vice Admiral John M. Poindexter, a former national security adviser; Colonel Oliver L. North, a former NSC staff member; Richard V. Secord, a retired air force major general; Albert Hakim, who was General Secord's business partner; and several Israeli officials.

William J. Casey, the director of the Central Intelligence Agency, remains too ill to speak with the panel after removal of a cancerous tumor from his brain last month.

At the same time, any suggestions the panel makes on how the National Security Council should be organized and used in the future have already been undertaken to some degree because Frank C. Carroon, the new national security adviser, began a major internal review and reorganization this month.

He said a week ago, for example, that the National Security Council would no longer involve itself in covert operations.

Despite the difficulties, the commission sees its contribution as valuable, the sources said. It is continuing to pursue leads and hopes to produce a chronology of the Iran affair that could provide some insights on why particular events unfolded as they did.

Even if the review board's Jan. 29 report deadline is extended for a brief period, as now seems likely, prospects that it could turn up major revelations are unlikely, the sources said.

Hussein Enan welcomes ADVISTA ARABIA '87 delegates

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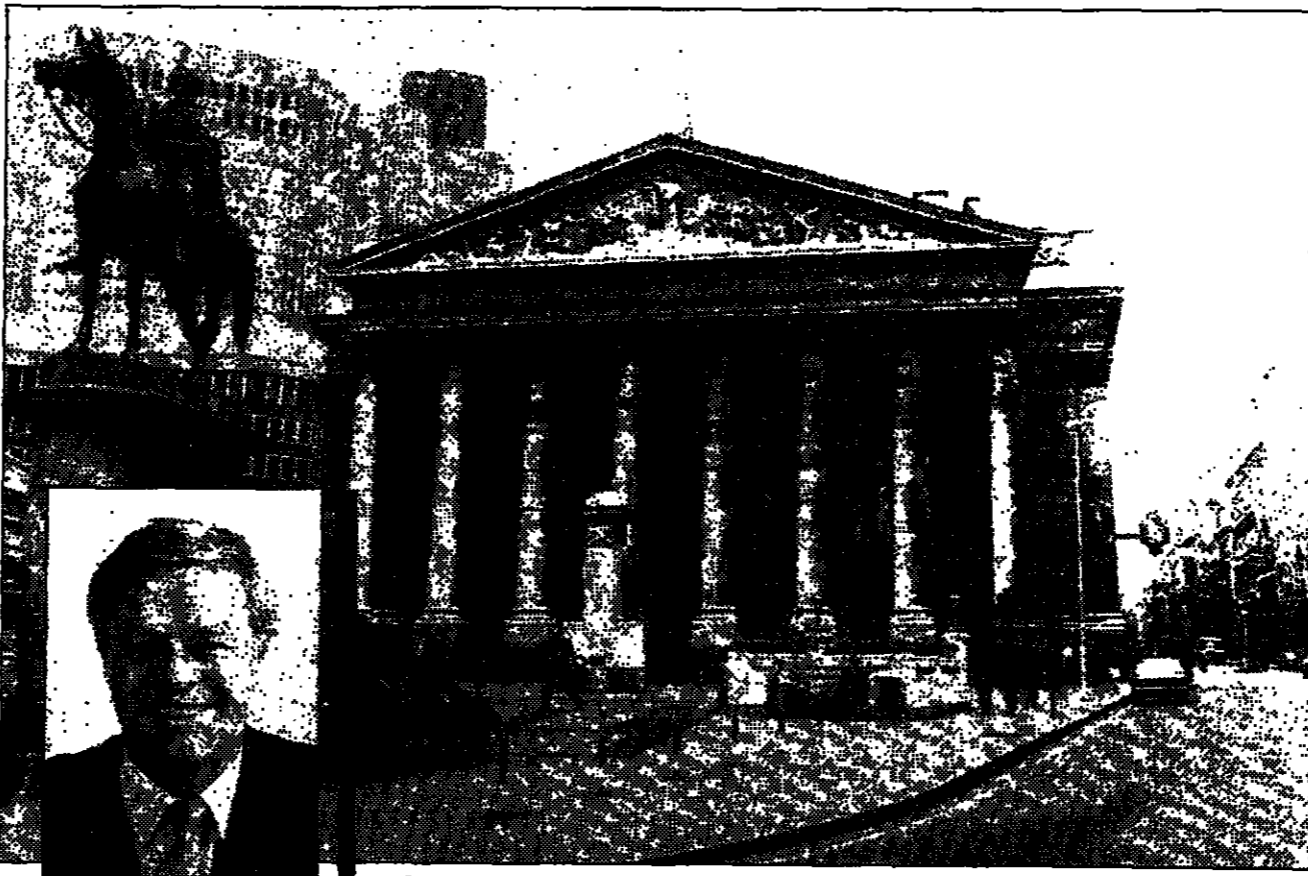
Britain's venture into privatization of government industries represents the country's most important economic and industrial change in the past four decades. Encompassing key industries — led by the transport, energy, communications and shipbuilding sectors of the economy — it can probably also claim to have generated the most international interest in Britain over the same period. In a way, it has served to pioneer similar privatization plans in Europe and other parts of the world.

The main voiced objectives of the government's privatization policy are that it will achieve greater business efficiency, stimulate wider share ownership, increase competitiveness and, by so doing, allow the powers of the free market to achieve more than they could under state control.

The government argument is largely based on the fact that most of the important industries of the country failed as state-run corporations, were prey to political and bureaucratic involvement, and that government needs, under such a system, often had to be overlooked. Borrowing was underwritten by the government, was indistinguishable in market terms from other forms of public sector borrowing and, as a result, the needs of individual state industries, on occasion, had to be subordinated to macroeconomic requirements. While claims for greater expenditure may have been justifiable in commercial terms, they nevertheless had to be viewed against the reality of public expenditure. The constraints stemmed from the paramount need to preserve public accountability through Parliament for the use of public money.

On a broader horizon, the sale of state-run corporations has generated a massive flow of cash for the government which, in the short term, will undoubtedly solve more than a few economic ills. What happens in the long term will depend on its reinvestment skills. Obviously, on an economic, political and ideological footing, the privatization process has gathered more than a few critics, although its industrial success appears recently to have considerably held back the flood of rhetoric.

Privatization, however, still remains the main point of contention for the opposition Labor Party and, while it should be argued that only history will be able to gauge the program's long-term economic advantages or shortcomings, its all-round implications for the future do remain a major topic for debate.



Left: John Butcher. Above: The LIFFE building.

The government's strongest card at this point is, undoubtedly, the record profit most of the companies have chalked up since privatization. John Butcher, the parliamentary Undersecretary of State for Industry, holds an impressive list and points out that this is just the beginning. "Privatization has revitalized some of our most important industries, has brought about the very changes that British industry has long needed — less state interference, more efficiency, better service to customers, increased incentives for management and employees," he said. "And the boost it has given to wider share ownership has helped create a more positive

attitude among the public at large to the future of British industry. It has created a new awareness at home and abroad."

The industrial success of the program, he says, can be measured in the sudden surge of profits from the newly privatized companies, many of which were floundering under state ownership and, very definitely, had lost their place in competitive world markets.

"The figures speak for themselves," he said. "The National Freight Consortium's pre-tax profits are up 70 percent for '85 and up six times since its 1982 privatization. Cable and Wireless has registered pre-tax profits up four-fold since its 1981 privatization. Amersham's pre-tax profit had doubled since it went to the private sector in 1982. Jaguar has come from near-bankruptcy and extinction to lead the country's automobile exports since its privatization in 1984. Its pre-tax profits were up 33 percent in 1985 compared to '84, with output at record levels and the provision of 1,500 new jobs. And British Aerospace has tripled its pre-tax profits since privatization in 1981."

Butcher believes that an important ingredient in the success of the privatization process has been the commitment of employees and the public to become involved in the country's own industry. "It has served to change the national culture," he said. "Individuals now no longer see share ownership as something for the rich. It is something they can all become involved in. And when it means owning a part of their own company, then obviously it

brings a change of attitude. It is removing the old distinctions between owners and workers. I believe it has made management and workers together more dedicated to the task of succeeding. And I believe that together they have already shown that this process works."

Employee interest in owning shares in their own companies has, feels Butcher, already served as a statement of their own commitment to the future of British industry.

"Over 430,000 employees have acquired shares in the firms they work in," says Butcher. "That represents over 87 percent of employees in privatized companies. When the National Freight Consortium was sold, 11,000 employees and their families bought 83 percent of the equity. A further 7,000 employees have bought shares since. And when British Telecom came on the market, 96 percent of its employees applied for shares."

Thirteen major companies have been privatized up to now but the government has plans to transfer around another four to the private sector, depending on market conditions, before the end of this Parliament. Those already privatized are British Aerospace, Cable and Wireless, Amersham International, the National Freight Consortium, Britoil, Associated British Ports, International Aeradio, Enterprise Oil, Sealink, Jaguar, Inmos, British Telecom and British Gas. In the same privatization period, all six of Britain's warship yards were also sold, four of them in management buy-outs, and six subsidiaries of the National Bus Company were sold, five in management buy-outs. The four remaining state companies up for transfer are: British Airways, National Bus, British Airports Authority and Rolls Royce.

By the end of 1987, after the BA, BAA and Rolls Royce sales, almost half of what comprised the state commercial sector in 1979 will have been sold to the private sector.

While there have been worries that privatization preempts funds for the private sector, Butcher feels they are unfounded. "The timing of sales is carefully planned," he says, "and the capacity of the market has been extended by new investors attracted by the very success of privatization. Market capacity as a result is very considerable — over £8 billion was raised by U.K. companies on the Stock Exchange up to December 1986."

Overseas interest in the privatization program continues to grow and is, in fact, providing room for a new export — privatization know-how for many British institutions who have been involved in the British process. Two British banks are now involved in the first French privatization project of Saint-Gobain, the giant glass and building materials company. Several institutions have also been approached for other French privatization projects, and others in Europe and other parts of the world.

Where will it all lead? "In Britain, I'd like it to lead to much wider share ownership," said Butcher. "After all, 60 percent of our people now own their own homes and that's one of the highest ratios in the world. I think it would be magnificent if we could get 60 percent to own shares in industry and more people joining those who already have taken a real share in the nation's assets."

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Keen Foresight Marks a Forerunner

In late 1983, when the British Government began planning for the privatization of British Telecom, European investors had little interest in buying U.K. shares. In fact, the track record was so insignificant that the financial houses were hardly about to be inspired by Britain's venture into privatization or the vague interest of European investors. And when the Chief Executive of the Swiss Bank Corporation International Ltd. in London came forward with an offer to handle a European share tranche, no one took him too seriously. The British Government obviously felt it worth a try but, rather cautiously, decided that Europe, in this case, would mean Switzerland only. The Europeans after all, had hardly fallen over themselves to play U.K. stock markets up to then and trying several European countries at the same time was not considered feasible.

The Swiss Bank Corporation had a different view. They felt that the privatization process in Britain would generate a new European interest and held immense potential. Such foresight paid off. The bank which had been a lone runner at the start, handled the Swiss share offers for British Telecom, Britoil and British Gas. It has also won the advisor's role for Banque Paribas. It is no longer a lone bidder for European offerings, having proven the market with the Telecom exercise, and has since had to join a long line-up of institutions in what is known in-house as "the beauty parade" to bid for the European tranche offerings. It has, however, turned its expertise to good use.

"The involvement has helped us enormously," explained Julian P. Summer, the bank's executive director. "We are one of the leading houses of the fast growing equities market and our involvement with the British government has helped build on our name. We've handled three successful European tranches and we have one more to handle. I don't doubt that the expertise we gained in Britain helped us to win the role of advisors to the French government for the floating of Banque Paribas and it is leading to further business in the private sector." By establishing such a track record of successes, the Swiss Bank Corporation now hopes to become involved in many other countries' privatization processes. Summer, in fact, envisions a massive boom in European trading as a result of Britain's privatization programs which, he said, are already spearheading similar plans in many other countries.

According to Summer, the French appear to have the most active privatization program lined up, led by the massive Saint Gobain Corporation and Banque Paribas. There are also signs of increased activity in Germany, Holland and Austria. But the one market that could develop in the future is Italy which, Summer pointed out, "has enormous Government holdings going into almost every imaginable area."

While overseas share offerings in British corporations have met with some opposition, Summer believed that the

Government's tightly controlled program, generally not allowing more than 15-20 percent to go to overseas investors, has, in fact, worked in favor of British business.

"There are many clear advantages to be gained from having overseas shareholders," he said. "It generates a lot of interest for the companies involved in world markets, and encourages greater investment. And one of the obvious advantages of having overseas tranches is to generate a better price."

He listed as an example, the Britoil experience. After a disastrous first issue, Britoil rather nervously reviewed the next offer. But noises of the softening of oil prices, and positive interest from Europe and Canada encouraged many to take another look.

"I think the only time overseas offering could be really unpopular," said Summer, "would be if the man on the street in Britain couldn't buy them. But that's not possible with the British Government regulations. They have what is called a "claw-back" stipulation which means that if retail investors apply over a certain number, then some of the shares can be taken back." This happened with the bank's initial allowance of 175 million British Gas shares worth £230 million. Under the claw-back clause, the bank was finally left with 102 million shares worth £137 million.

"It could be argued," said Summer, "that, as the deal got closer, British Gas could well have done without us. But, initially, the size of the £5 billion offering was unthinkable large. It ended up being twice over-subscribed but, a year previously, it had seemed a mammoth size."

An additional government benefit of having someone like the Swiss Bank Corporation, around, continued Summer, lies in using the bank's relatively low commission structure to lever lower prices from U.K. institutions involved. "The government use us to bash the institutions in Britain," said Summer. "If they are asking for a yield of ten percent, for example, then the government can argue that the European offering is only costing six percent."

How does Summer see European interest growing in British shares from now on? "Well," he said, "British Telecom really turned the tables. There was suddenly an enormous European interest in British shares. And Telecom served as a successful promotional tool. People who invested in Telecom doubled their money instantly. Since then, I think the privatization programs have served to continuously awaken peoples attention. And that has definitely meant an increase in European investing in Britain."

This supplement is the first in a series of Special Business Expansion advertising sections, written and created by Anna Francis and Dominique Sured.

Schroder: A Hands-On Approach

Getting involved in privatization means getting involved in the operations of the companies themselves. For a merchant bank like Schroder, that has meant a variety of experiences: from sending in teams of financial experts to learn the ins and outs of running ports and transportation networks, to studying the latest advances in modern communications.

Derek Netherton, the director of J. Henry Schroder Wagg Ltd. in London said, "It has been necessary for everyone working on privatization projects to fully understand the company and its all-around operations. When we became involved with the Association of British Ports, for example, we had to send in teams who, at first, had little idea of how a port actually worked. So, they had to stay and study the entire operation and ensure a thorough knowledge of each port facility. Schroder eventually must write the prospectus, and that becomes the selling document, so a comprehensive study has to be made."

Schroder was, in fact, one of the city's first financial institutions to become involved in Britain's privatization lineup. In the early days of Prime Minister Margaret Thatcher's government, they were called in to advise the National Freight Corporation on its preparations for privatization.

"It was a difficult time for the company," said Netherton. "They held less than a ten percent share of the fragmented market. Their main competitors were the small haulers. They had been forced to reduce their work force on the parcels side due to the changing ways of parcel transportation. And the British Rail contract they

had was not at all profitable for either side. Their strength, however, lay in the delivery side of their business. They had tried to differentiate themselves from other delivery transporters by ensuring return loads. So, if they were delivering something from point A to point B, they would aim to get a load from point B back to point A. And they had moved into the fashion business with companies like Marks and Spencer, and into cold storage with distribution to and from depots. They were diversifying into areas where service was important. When you studied the overall picture, they had a lot of opportunity."

Schroder's task was to examine the different ways in which NFC might go about privatization. The government was eager to see NFC given a chance within the private sector, and finally a mutual decision was reached with NFC for a management-led buyout and a consortium was formed.

"It was a politically attractive project for the government, which was quite avid about making progress in privatization," said Netherton. "It was an early runner in the wider share ownership program and the company was fortunate in that its employees regarded NFC as their own and were prepared to take the risk of investing in it. It was, and still is, an encouraging example of privatization."

Schroder, however, had to wade through many difficulties to set the stage for the final buyout. First, the company had a £50-million debt problem; therefore it could not use its land assets as collateral because, technically, the creditors would move in if something went

wrong. The rule was finally changed and the banks involved were able to acquire better security on these assets. Then there was a problem on the pension fund side. The fund represented two to three times the value of the company, although usually it should be only about half the worth. The government stepped in to fund the deficiency.

After the NFC experience, Schroder became involved in the far more complex attempt to privatize the Association of British Ports.

"It was the ugly duckling turning into a swan story," said Netherton. "Schroder was called in rather late in the day to advise the government. So we sent off teams to different ports to examine the situation. The work force was shrinking — it was the time of casual labor at the docks and strong management. The dock labor scheme stipulated that all docks were guaranteed work. And they were moving into containerization, which served to decrease the number of employees required."

"When we were called in, the government had decided to sell off only 51 percent of ABP, due to sensitivity within the workforce. We had to try and make the deal attractive to investors. So we had to fully comprehend every aspect of activity. Docks, to non-insiders, usually mean trouble — unions and strikes. We decided that the yield on the shares should be about 10 percent. It was capitalized at £45 million, so it was small. The record did not look very good, so ABP required an excellent description and the employees needed to be ameliorated with free and preferred shares."

On the day before flotation, the merchant bank involved with ABP signed documents for the government guaranteeing that it would take all unsold shares in the event that the public did not subscribe.

"Schroder, because it joined late in the day, had no time to do this," said Netherton. "But we obviously were concerned for its overall success. A press conference was called and the press could well have concentrated on all the negative points, like the unions and strikes and the low profits, or they could have gone the other way and talked about the potential of the property. But the press was very positive on the issue. And the ABP offering ended up being 33 times oversubscribed, so it worked out just fine."

The government still held 49 percent of the shares, so when the second tranche came up for offering, it was decided to try and offer shares by tender.

"There were worries that it would not work," says Netherton, "but they got a much better price of £2.75 per share. It was a nervous time, though, because the market had turned against us, so the £2.75-a-share achievement was rewarding. And the financial press acknowledged that we had obtained a better price, so it was considered a successful tender."

One of Schroder's most challenging involvements with modern technology in the British privatization lineup came with the second tender of Cable and Wireless, the little-known but giant British communications company.

"Cable and Wireless is the 14th-largest company in the country," said Netherton, "but it was not well-known to the

public. In fact it was a very modern company and its technology was, in many ways, superior to that of British Telecom. It needed value for money advertising. It was going for a less-wide audience than British Telecom and did not want a repeat of over-subscription like the first share offering. It also wanted to raise its profile in Japan and Canada. It saw the Far East, for example, as a major potential for growth."

Schroder came up with a novel structure for the £900-million Cable and Wireless offering. "We had to ensure that there were enough shares available for the public but, on the other hand, had to consider what would happen if the public did not go for the offering," said Netherton. "We had to figure out a balance. So we decided to sell some to the institutions first so we would be left with only a balance. If the institutions were already participating, then that showed a factor of confidence. Then we came up with an unusual structure where about 60 percent of the £900 million had to actually sell. But, within this 60 percent, some 30 percent were bought by present shareholders so, in reality, there was only 30 percent left for Cable and Wireless to hand-sell to the market."

For Schroder, such involvement has only added to its active profile in the British economy. In 1985, the London division of the company posted record profits and participated in 22 public takeovers and bids concluded during the year.

As a result of its successful involvement with privatization, Schroder is now advising overseas companies and governments on similar ventures.

Telecom's New Commercial Approach

Five years ago, 250,000 people in Britain were on a British Telecom (BT) waiting list for telephone installations. Those with a line had to rent their telephone apparatus from the company, and frequently had complaints on the service. That represented a captive clientele for Britain's sole telecommunications company.

Today, the waiting list has been removed, customers can now choose and buy their own apparatus from a large selection on the market or rent it if they prefer, and the complaints are quickly declining.

While British Telecom's recent improvements cannot all claim to have come about as a result of privatization — many changes were already in the early stages of implementation before the shares were floated — the new company structure and the more innovative approach to management have allowed for broad-based expansion.

William P. Kember, British Telecom's Corporate Financial Controller, believes that privatization's most important impact on the company has been to change the whole "culture" of the communication giant's internal management structure.

"It has enabled us, in the first place, to make more of our decisions on commercial instead of political grounds," he said. Kember pointed out that British Telecom itself is a part of one of the fastest and most competitive growth industries of this age and, as such, required a thoroughly commercial approach to business. The new, commercially oriented Telecom operation hopes to remain an active competitor in the world marketplace while providing more comprehensive business and consumer services back home.

According to Kember, BT already can claim to "run the best international telephone service in the world," basing his claim on, among other

things, the fact that the company is internationally reputed to have the most comprehensive range of self-dial services available through its national network. In fact, Britain offers direct-dial links now to 173 countries — with Chinese links to Peking, Shanghai and Guangzhou becoming the 173rd last Dec. 1. BT also has the second largest share in In-clar, the telecommunications satellite which has the U.S. as the biggest contributor, with France third behind Britain.

While BT has branched out into many different communications areas, particularly those relating to business, it has had to follow one constant major objective since privatization to keep prices down for the home consumer.

"During the period of high inflation countries like the U.S. and U.K. faced political pressure to increase their prices," said Kember. "They were really out of balance but, in the past two to three years they have been at the correct level, nearer to the actual cost. And there is a balance maintained."

The company has 1.5 million shareholders, including 95% of BT staff who bought into the company when it was turned over to the private sector in 1984. BT has found it very necessary to live up to their expectations.

This has not proven too difficult to achieve. BT has expanded on its digital services, installed sophisticated equipment in 6,000 telephone exchanges around the country as part of an ongoing modernization plan, instituted a chain of Telecom shops selling a wide variety of apparatus, and has built up a directory of business services to suit the needs of modern day commerce, finance and industry.

"Liberalization has allowed us to be more innovative and to increase our business activities," said Kember. "We've had tremendous business, for

example, with Cellnet, the mobile phone system, with Personal, the on-line system, and the electronic mail box. And the freedom has allowed us to become active in cable TV and invest in half a dozen franchises. We have also moved into the acquisitions area. Since privatization, we bought the Canadian company Mirci which manufactures PABX equipment, International Air Radio which is into air traffic control and air support communications, and Dialcom in the United States which is the electronic mail system."

One of the most successful innovations, already attracting world attention, has been the City Business System, a touch screen dealing board for the financial community. Introduced in 1982, the CBS was the first system of its kind in the world. It features a television screen which doubles as a data display and touch keyboard. Its terminal can be used by dealers for accessing company information and for sending and receiving telexes.

"CBS has been very successful on the world market," said Kember. "We now have more than 5,000 screens in operation and one new system a week is being installed."

Up to now, the CBS has sold well in Hong Kong, Australia and the United States. Since last October, a Japanese version, specially developed for that market with Kanji characters for the visual display screen, has been distributed by Mitsui throughout Japan.

"The CBS success led us to develop similar systems for non-financial operations," added Kember.

Such innovations have all been good for British Telecom's international image and for the management. As Kember said: "British Telecom is definitely living in a more exciting time. A lot of commercial drive has been set free, and we have become very newsworthy as a result."

Kleinwort Benson

has acted as an adviser in the following privatisations

Saint - Gobain	December 1986
British Gas	November 1986
Cable & Wireless	December 1985
British Aerospace	May 1985
British Telecom	November 1984
Enterprise Oil	June 1984
Cable & Wireless	November 1983
Associated British Ports	February 1983
Cable & Wireless	November 1981
British Aerospace	February 1981

The total value of these offerings was more than

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Amersham Makes a Smooth Changeover

One of Britain's most interesting companies to bid for privatization was undoubtedly Amersham, the radioactive isotope supplier which, so to speak, got into the business by accident in the first place.

Its debut in the field of producing and researching radioactive substances came after consignment of radium ore for luminous paint from the Belgian Congo destined for Germany was intercepted just a year after the declaration of World War II.

At that time, England did not have any radium but certainly have found use for some. So the government commissioned the company Thorium to refine the substance so it could be used for diverse applications such as luminous paint. Thorium passed on the task to one of its scientists to find a lab equipped for such a task. The search was fruitless until one night, while consoling himself in a good old English pub in Amersham, the scientist was informed that a good piece of real estate with a house was up for sale right next door. He bought the house, set-up laboratories and the rest is history, including the Amersham staff who, after 46 years, still pay their visit to the famous pub, the White Lion.

A few years after the end of the war, great progress was made in the field of man-made radioactive products. In 1954, this whole development area became part of the U.K. Atomic Energy Authority and continued what was termed in those days its "peculiar operations." By 1958, it had asked the government to be responsible for manufacturing and marketing all products derived from radioisotopes. By 1964, it had become a self-accounting business operation.

With such an individualistic and strong business perception, it is no wonder that Amersham progressed so well, so quickly. As Burgess, the Chief Executive of Amersham points out: "Amersham has had a consist-

ent theme which has been that regardless of ownership, the operation was always run as a commercial enterprise. So actually, privatization made no difference for us, as it did for a company like British Gas who were never run as a commercial venture."

The privatization wave hit Amersham in 1971 when a bill was issued authorizing the government to sell up to 49% of the company. The government, however, wanted to sell off the whole operation, so an Act of Parliament was required. The Act was announced in 1979 and when privatization occurred in February 1982, £71 million of shares pulled in £1.75 billion worth of applications. The first day trading generated £20 million, a blow to the government who had just previously overpriced the Btroll tender, and had now priced Amersham far too low.

From the employees' point of view, Burgess recalled, privatization was initially received as a potential threat to their stable and secure jobs. "The company was successful," he says, "and they were getting good benefits, so they wondered what privatization had in store for them. At that time there had been only two privatizations and Amersham was the third."

Our of the endless discussions between Amersham and the government, emerged the creation of what is now referred to the Golden Share. "While working out a deal for us," said Burgess, "the government was also preparing for the privatization of Btroll. During one of our conversations, the topic came up of how they could keep some sort of control over the company, which was a must considering it was such an important resource of energy. So we all came up with the concept of the Golden Share and it was decided that it would be applied to Amersham also. The Golden Share as applies to many of the privatized companies, is an all-powerful government share in a very restricted

sense, which protects the articles of the company. It holds no values or dividends, but it can stipulate, for example, that no one shall own more than 15% of the shares. Burgess explained that the government has "powerful weapons to fight this if they suspect someone. They can require him to sell down to 15% and have no voting rights until then."

Dr. Burgess, a young 57 year old, joined Amersham in 1953 as a research chemist directly from University College, London and soon went into the production side. By 1960 he had switched to marketing and was running Amersham's U.S. company. "Amersham was always considered the oddball as far as



Dr. Burgess

the government was concerned," said Burgess. "We were small and yet commercial, so we were always allowed to get on with the job. As long as the business was successful, there was a hands-off policy."

Although Amersham is known for its radioactive products, in the past few years its business has been shifting into non-radioactive products. "We've gone through a few stages since the late forties," commented Burgess. "At first we dealt with natural radioactivity but then we were obviously limited by the supply of such substances. And as the products became more sophisticated we had to find an alternative route. Man-made radioactive substances are created through a nuclear reactor and we use two which operate by

turn on a three-week period."

But although radioactive products have been the lifeblood of Amersham, their skills are evolving one step ahead of the clients' demands. "We are getting more and more into the chemistry side to research and meeting the specialized needs of the customers regardless of whether or not they are radioactive," said Burgess. "We make, for example, diagnostic products which we call 'chemistry set with a recipe.' This involves taking a blood sample and doing a test according to the instructions of our recipe. We'll provide the tube with a substance and by following the instructions you can tell if the patient has cancer, is pregnant, or has a problem with the thyroid function."

Previously, nothing as sensitive as radioactivity existed, but Amersham has now come up with a unique technique that is even better. This consists of measuring with light, using signals instead of radio-activity. The advantage is that there is absolutely no radioactive use and the signals can automate the process. It is also more cost effective, quicker, and efficient.

Burgess is the first to recognize that the market is moving towards non-radioactive alternatives. "Amersham reacts to clients' needs," he said, "so we have introduced a new sector of non-radioactivity."

For the past five years, Amersham has experienced a 20% growth rate and is continuously diversifying. In 1986, out of the 120 new products added to its range, three quarters were non-radioactive.

Most of its exports are in Europe, representing half the export figure, with a quarter going to North America, and some in Japan. Amersham holds a strong position in North America with a 15% growth each year representing a 20% return. "We are successful," concludes Burgess, "because our products are first rate."

Kleinwort Handles Big Privatization Moves

How does a merchant bank that owns part of the gold ring, has ship brokerage and substantial banking interests, operates a management advisory service, is involved in capital marketing, corporate finance, in futures and Eurobonds and Eurobonds and has just acquired a stockbroker, find the time to become heavily involved in Britain's privatization process?

Ask Kleinwort. It acted as advisor for British Aerospace, Cable and Wireless, the Association of British Ports and advised the British Government on Enterprise Oil, British Telecom and British Gas. In several of the early privatizations, in fact, it was playing a dual role in advising both the government and the company.

Kleinwort's success can obviously be put to good management. Its success at privatization comes from the same spirit of drive and initiative and, for Kleinwort in London, long hours put into achieving such goals. David Clementi, Director, explained: "Privatization is really not much different from corporate financing except for the marketing of the Government shares."

If that sounds simple, it really isn't. A merchant bank, like Kleinwort, generally is the first appointee for a privatization candidate. It will be expected to assume the role of coordination. The government will then appoint lawyers and then stockbrokers to advise and handle the institutional marketing of stocks. Highly qualified research teams will be brought in before the government moves on to appoint a public relations company who will handle the

presentation to investors and the general public through the media and also take care of the physical design of the prospectus. A printer has to be chosen who can guarantee a no-flaw service for the abundance of literature required. In such appointments, Kleinwort has to advise the government on what to ask for and what to expect. They also have had to ensure that a good team was put together from the start.

Kleinwort was, so to speak, fished into the deep end from the start of their association with privatization: the first project they tackled was British Aerospace, which represented a mammoth £150 million issue. After British Telecom and British Gas, that figure today, seems small, but back at the time it was considered huge.

"With British Aerospace, we were really feeling the way," said Clementi. "We were acting for both the government and the company and setting the pattern of operation that we would follow in the future. There were the obvious questions: how do you present such a company? How do you gauge how many people will apply? We learned a lot from our involvement with British Aerospace and we have built up a great deal of experience since then."

Clementi said that the most difficult aspect of handling a privatization is the actual logistics of the whole operation. British Aerospace, for example, represented over 30,000 applications but British Telecom brought in over 2 million. The details of handling the printing, distribution and follow-up

for these applications, plus the production, printing and distribution of millions of prospectuses — there were seven million for BT, which had to be available at several thousand locations — create quite a mammoth task. And, as Clementi points out, "There is absolutely no room for error or delay. Nothing must go wrong."

In its advisory role to the government, Kleinwort draws from its own pool of expertise to study and evaluate a four-point structure leading up to the actual privatization process. It will deal with valuation, the capital structure, the proposed regulatory structure and the marketing procedures.

"In the valuation process, we examine the conceptual issues and the practical aspects," explained Clementi. "It's a process where we will be putting a money value on the sale price of the company."

On the capital structure side, decisions have to be made on how much debt or equity exist if a debt should be restructured, if preferential shares should be offered and the form the structure itself should take.

While Kleinwort is not actually involved in drawing up the regulatory structure generally the government outlines this it is expected to study the outline and to evaluate the impact that it will have. The marketing and structure of the offer will decide how many shares are going to be offered and whether or not the whole company should be sold at once or in a series of tranches.

"If it sold off in tranches," explained Clementi, "the government can re-evaluate the val-

ue at each stage and maybe make more money that way. For example, British Telecom sold 51% in one offering and the rest will be sold off in 1988."

Selling in tranches, however, provides many more complexities. "It requires a great deal of study," said Clementi. "There are several problems to consider. Sometimes investors (in tranche offerings) tend to mark down the price because of the uncertainty. Then there are the Treasury's views on the subject. If the government stake remains greater than 50%, then it can be said that privatization is getting out of the public sector — if the government owns more than half, then the company is not really privatized. And, when the government does keep more than half, then the transitional stage is complex. For example, if the public holds 25%, then the government is not a passive shareholder so it would have the freedom to make political decision with its majority of shares."

But sorting out such problems, between all its other activities, has now become a regular task for the Kleinwort privatization team. It has led to Kleinwort advising the Malaysian government on the possible privatization of its telecommunications and ports sector, advising Saint-Gobain on its recent share issue and discussing other privatization schemes in the U.S., Canada, Scandinavia, the Netherlands, France, Italy and Spain.

As Clementi concluded, "Our involvement in Britain's privatization has provided us with considerable expertise."

NFC Emerges a Winner

Fate couldn't have played a better hand at sorting out the ownership of the National Freight Consortium.

On the eve of flotation, one of the company's largest contracts with British Rail Express Parcels was suddenly cancelled, meaning a loss of £25 million worth of business. It appeared the government's only solution would be to sell the company off to the highest bidder.

However, according to NFC chairman Sir Peter Thomson, "The thought of selling off NFC to the highest bidder really worried the management. We were asset-rich and had acres and acres of unused properties, old warehouse sites, that had good real estate value. We didn't want to see it all go. The only solution was to buy the company from the government ourselves. So, we went to the government and asked how it would feel about us trying to organize a management led buyout."

"To succeed, the management had to raise six million pounds. With that kind of money involved, it needed to fire enthusiasm among the entire staff of the fifty companies tied up in the consortium. It also needed to go the rounds with lawyers and banks."

"We found a consortium of banks prepared to put up most of the money for a small amount of shares," said Muriel Craddock, public relations officer, "but it stipulated that the directors of the company must also make personal investments as proof that they would make it work."

The chairman put up £40,000 and then about 100 top-senior management staff were asked if they would consider putting forward £10,000 each to back the bid. All liked the idea, so the next step was to go around the country and talk to the 2,500 managers.

"We put together a road-show on the scheme," said Craddock. "It travelled around for two weeks and was a resounding success." With the management behind them, the company now had to convince the employees to take a similar position.

"The Chairman is a man with a vision," continued Craddock, "so we wanted him up front, but there were 700 locations to be covered and he couldn't do them all."

"We made a video with an accompanying text for distribu-



NFC transports delicate office equipment.

tion. Then, one Sunday, special telephone lines were installed and the directors manned them to answer any questions that the staff had. Everyone was being offered a £200 interest-free loan to buy their shares and, because we really did not know what kind of feedback we would get from the staff, the same applied to pensioners and their families. We needed to raise £6 million so it was huge communications problem."

The interest, however, eventually led to the company being oversubscribed and it now has 23,000 shareholders in the U.K.

"It wasn't easy going," explained Craddock. "We had to present the prospectus to all the workers from the drivers on through the fitters and the secretaries."

The verbal tonnage, and the managerial effort paid off and in February 1982, a check enabling the management-led buyout was handed over to the Secretary of State for Transport.

Since then, the company has never looked back. "When privatization came," explained Sir Peter Thomson, "we took a new look at the company. There were plans to be made, like how much should we reinvest into it, what kind of diversification should we go into. Above all, we wanted to watch costs and increase the dividends. You can't really quantify what privatization meant but it did make us more aware of our image. And it ended the constraints we had faced in the government sector. Before the change, we had been limited on money and had horrendous interest to pay the government. And there was a narrow, blinkered view of what we were allowed to do."

On the top of the list of the new company strategy was a decision to invest overseas in

NFC has also moved heavily into distribution which has meant expanding computer systems to handle the often complex tasks of coordination. It handles all of Marks and Spencers packages products, for example, runs a distribution operation for Sainsbury and is now looking out for companies wanting to sell the distribution side of their business. "We have 70 companies in NFC," said Sir Peter, "and they handle anything that moves from bulk distribution of liquid wastes and home removals to contract hire and total distribution."

While the general public is inclined to think of NFC as a transportation company, it does have other interests. It is currently Britain's second largest retail travel operator with 300 shops around the country and it also recently bought the business division of Lunn Poly which runs hotels and conference centers. It has even gotten into car auctions as an offshoot business to its car transportation activities. And it owns Freight Computer Services which provides software to companies at home and abroad. But an unexpected area of business has emerged in property development.

"After the NFC buyout," explained Sir Peter, "the company used some of its own real estate to help in the operating profits. The company had a lot of land with old, unused warehouses. Some were sold off and the others revamped. It created a better working environment. But, having moved into the property business, we thought that we might as well develop a property portfolio. Now, we are Britain's second largest developers of nonfood retail warehousing." If the management have one aim today, it is to keep growing on its own money. The Chairman added that there may also come a time when the company decides to float its shares.

Meanwhile, the 25,000 employees of NFC are sharing in the consortium's new found fortunes. Sir Peter concluded, "We have a family feeling, a group commitment. We all know about each other and work toward the same goal. Instead of us being the bosses these days, we find that the workers are ours. It's an unusual partnership that works. And we are growing faster than any other competitor. Maybe we just had that touch of magic."

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Iran, Iraq and America

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What Is the SDI Policy?

In Geneva, American and Soviet negotiators are trying to work out a strategic arms control agreement...

After a Visit to Africa

On his long-overdue visit to Africa, what George Shultz has prescribed for the troubled continent is more private enterprise...

Other Comment

AIDS: It's Prudent to Panic I am not a doctor. I leave to scientists judgments about the potential spread of AIDS in the general population...



There Is Much Unfinished Business on King's Day

WASHINGTON — Today, Jan. 19, the United States for the second time commemorates the late Martin Luther King Jr. with a national holiday...

Nonviolence Was King's Chosen Tactic for Achieving Justice

ATLANTA — In 1955 a group of black leaders invited Mahatma Gandhi to come to America to assist their struggle for equality...

The 'System' Will Survive The Sad State of Reagan

WASHINGTON — On Jan. 27 President Reagan will deliver his seventh annual State of the Union message...

OPINION

Tugging On A Trio of Loose Ends

PARIS — The wending revelations of Iran-contra-Brunsi-gate suggest that the Reagan administration has run its diplomacy and national security planning on the principles of the junk bond market...

By Colman McCarthy

By Coretta Scott King

By James Reston

LETTER

IN OUR PAGES, 75 AND 50 YEARS AGO

Andreotti as Dupe?

1912: Frozen Kingdom

1937: Philippines Policy

Of the many unusual images currently emanating from the Reagan White House, perhaps the most curious is the vision presented of Giulio Andreotti as a victim of William Wilson's deception...

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Dollar Fallout Leaves Goldbugs Disappointed

THE DISAPPOINTMENT was almost palpable. In gold dealing rooms around the world last week, traders were expressing frustration at gold's laggard response to the turmoil in the currency markets. Although it had easily rebounded over the \$400 mark at the end of December and continued to make ground as the dollar slid, the price gains fell far short of expectations.

In fact, last Wednesday, when the dollar's drop suddenly accelerated amid reports that the Reagan administration wants the U.S. currency to fall further, gold managed only a \$6.90 an ounce gain in New York. Some analysts had expected double that amount.

"The market was certainly more active," says Frederic S. Bogart, a senior vice president and gold trader at Republic National Bank in New York. "But I can't characterize it as solid business all day, because there wasn't."

Indeed, much to the dismay of goldbugs, prices have moved upward at roughly the same pace as the dollar has declined. This is somewhat puzzling since gold, traditionally viewed as an alternative investment to the dollar, is considered more volatile. Thus, gold prices should be expected to swing wider than the dollar's value on currency markets.

ADDDING TO THE CONFUSION is the apparent equanimity with which the gold market has greeted OPEC's recent price accord. Although oil prices have firmed in response to the agreement, it has not produced any widespread inflationary jitters.

There are a number of factors blunting the current rally. A paramount problem in the minds of many observers is the lingering doubts about gold. Many investors were disappointed last year when gold broke through the "psychological" barrier of \$400 last September, climbed to \$443 in October, and then proceeded to give up many of its gains.

In retrospect, a number of observers blame unrealistic expectations about supply and demand for the ill-fated rally. Platinum which ignited the surge in precious metals prices touched \$672 an ounce last Sept. 5 on fears that the unrest in South Africa would jeopardize the world's largest source for the metal. That did not come to pass.

MOREOVER, major gold producers, like the Soviet Union, are thought to have stepped up sales as prices became more attractive. "In the end, production tempered the buying," says Paul Cain, a precious metals analyst with Shearson Lehman Brothers.

Another development that has detracted from gold's appeal has been the resurgence of interest in U.S. stocks now that the Dow Jones Industrial average has vaulted over the 2,000 level. "A lot of people still believe the big plays are in financial assets," notes James Kneafsey, president of Cambridge Commodities Corp. in Massachusetts.

Despite such constraints, the market is far from bearish. Despite periodic corrections, prices appear firm. And if the dollar remains weak, many analysts say gold could once again climb above \$440 in the near term, possibly higher by the end of the year. "Nobody is unhappy with gold," says Mr. Kneafsey, who thinks \$362 to \$443 may be a fair trading range. "But you can see how a bull might be quite disappointed."

John Meehan

UPDATE

U.S. Voting Debate: The Latest Chapter



John Shad

THE NEW YORK stock exchange's controversial proposal to loosen its one-share, one-vote rule has received a boost from a Securities and Exchange Commission study showing that stock prices change little when companies issue common shares with limited voting rights.

In study that has yet to be released, Amette Poulson, acting chief economist for the SEC, said agency staffers examined about 65 companies that issued common shares with unequal voting rights and found "no significant impact on stock price." Megan Parrish, a professor of finance at the University of Oregon, reached a similar conclusion in a separate study. "It seems that investors aren't bothered by a change in voting rights," Ms. Parrish surmises.

The Big Board, bowing to strong pressure from corporate America, is seeking SEC permission to allow companies to adopt dual-class common as long as a majority of shareholders and outside directors agree. The American Stock Exchange and the burgeoning over-the-counter market already permit the practice.

Companies eager to avoid a hostile takeover sometimes issue high-yielding stock with little or no voting power in exchange for outstanding shares. Ms. Poulson said the SEC study suggests that investors may believe that higher dividends and other inducements attached to the non-voting stock offsets any danger posed by relinquishing control.

But such theories do little to silence critics. Robert Monks, president of Institutional Shareholders' Services, argues that price studies are misleading because many companies that have issued dual class already had a high degree of power concentrated in management. Furthermore, he said, inducements to accept voteless stock are "fundamentally coercive."

In public hearings last month, SEC Chairman John Shad suggested that he favored a compromise to the NYSE plan, possibly requiring a uniform standard among all exchanges. "I would suspect that is the way it will go," Ms. Poulson says. An SEC spokeswoman said the commission likely will act on the proposal sometime in the first quarter of this year.

Phil Roosevelt

Cashing In on Europe's Denationalizations

The sell-offs will continue in 1987, bringing some big names to market.

By Lynne Curry

IT WAS DUBBED the perfect deal, and many investors found it hard to pass up. By the end of a weeklong public offering that followed an elaborate \$41-million marketing campaign by the Thatcher government, more than 4 million individual investors had signed up to buy stock in British Gas under the most ambitious privatization plan ever undertaken.

Thanks in part to a three-step payment plan that required an initial outlay of only 50 pence (about 75 U.S. cents) a share for the state-owned gas utility, the £5.65 billion offering was easily oversubscribed. And despite some grumblings that there should have been a bigger response, British Gas had already climbed to 67 pence by the time it began officially trading Dec. 8 on the London Stock Exchange.

"It was a chance of making a little bit of money," recalls Eric Russell, a 41-year-old telecommunications supervisor in London, who was lucky enough to get 350 shares at the offering price. He sold his stake when it hit 62.5 pence.

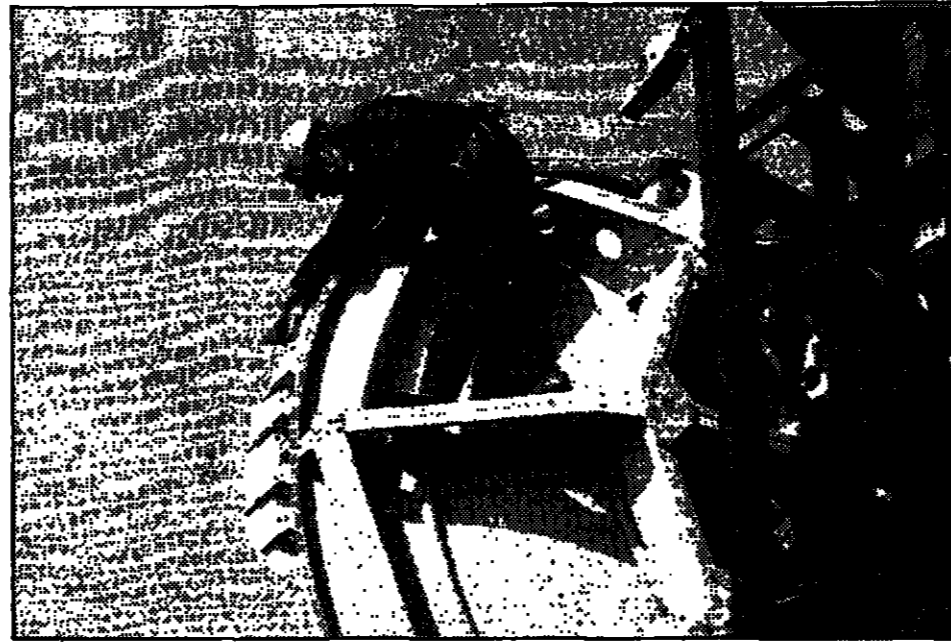
The success of the British Gas offering and equally enthusiastic market response last month to the French government's sale of Saint Gobain, the industrial glass and engineering group, indicate the kind of interest that privatization is generating in the investment community.

Ever since British Telecom was sold to the public in 1984, investors have been waiting eagerly for governments to sell off other state assets in the hopes of finding a similar bargain. The successful sale of the telephone utility is generally viewed as a watershed in the process of privatization because of the scale of offering and the interest it generated. At the same time, its share price has quadrupled since it was offered.

This year promises the least schedule of privatizations to date. No fewer than 11 major industrialized countries are planning to sell off all or part of their interest in state-owned concerns, though the pace of the offerings is still unclear in many cases. These range from Iberia airlines in Spain to Japan's Nippon Telegraph & Telephone. Even in the United States, where public ownership has traditionally played a relatively minor role in the economy, the government intends to sell off almost \$8 billion worth of assets, including its stake in the troubled national railroad, Conrail.

Not surprisingly, much of the investor interest has focused on Britain and France, which have put forth

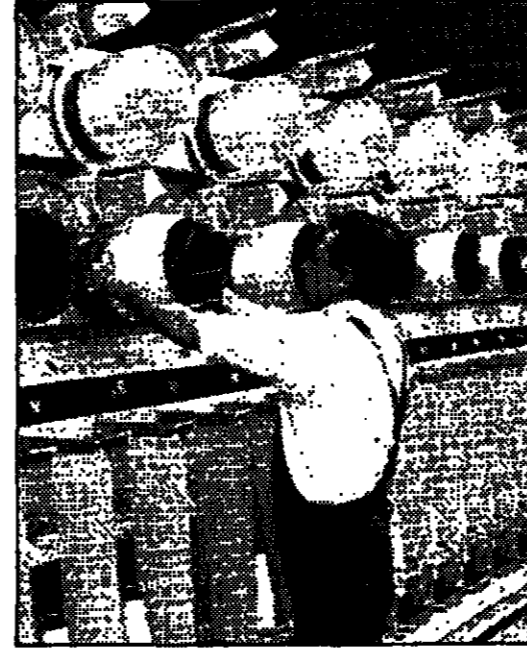
(Continued on Page 10)



TELECOMMUNICATIONS
British Telecom shares have quadrupled since it went public in 1984.



FINANCE
Paribas will test investors' appetite for French banks.



MANUFACTURING
A St. Gobain fiber plant. Its offering was major success for the government.

FOR SALE IN '87

Paribas

The fifth-largest French bank in assets and a strong player in domestic and international capital markets, Paribas sale will set the tone for the planned denationalization of Credit Commercial de France. Twenty-five percent of the capital has traded on the Bourse as nonvoting stock. Of the voting stock held by the government, half will be sold to the French public and the rest to French institutions, foreigners and bank employees.

CGE

Compagnie Generale d'Electricite has been designated as the next French industrial group to be sold off, possibly as early as May. CGE recently paid \$377 million for 55.6 percent of a joint venture with I.T.T. The venture ranks as the second-largest telecommunications group after AT&T. Analysts believe CGE profit rose 15 to 20 percent in 1986 from 1985's 12 billion francs.

TF1

TF1, France's biggest television network, may also be on the block in the first half. Only 40 percent is expected to be sold publicly, with 60 percent to be placed with one or two big conglomerates. Overstating was blamed by many observers for TF1's 176-million-franc loss in 1985, but it may have broken even in 1986. The sale could bring up to 5 billion francs.

British Airways

After years of delay, British Airways goes to the market next month, fetching just under £1 billion by some estimates. The prospectus says the airline's pretax profit could fall 20 percent to £145 million in the year ending March 13, but analysts expect a better showing in fiscal 1988. Given the volatility of the airline business, the issue has been pitched to big investors. Expected price is 120 to 135 pence a share. (About 20 percent of the offer will be sold abroad.)

British Airports Authority

British Airports Authority owns Heathrow, Gatwick, and several other airports in Britain. Deriving most of its revenue from landing fees and duty-free sales, analysts call it a steady, if slow-growing business. A potential constraint is the difficulty of enlarging its London-area terminals. (The offer could fetch from £600 million to £1 billion.) Estimated share price: £1.

Rolls Royce

This maker of aircraft engines has always had strong military orders but is beginning to cash in on its development of engines for civil aircraft, analysts say. Pretax profit nearly tripled in 1985 to £21 million. Estimates of its sale value range from £500 million to £1 billion.

FUNDS

A New Set of Sophisticated Funds

Their bag of tricks includes index arbitrage and portfolio insurance.

By Phil Roosevelt

DISCOURAGED by program trading? Overwhelmed by those big institutions and their jumbo computers? Don't despair. The U.S. mutual fund industry, which has long portrayed itself as a haven for "the little guy," is serving up some funds that plan to use the same computerized techniques employed by Wall Street's most sophisticated investors.

Already, at least two mutual funds are using "portfolio insurance," a computerized hedging strategy involving stock-index futures. And another fund still in the works is planning to couple insurance with the most prominent form of program trading, stock-index arbitrage.

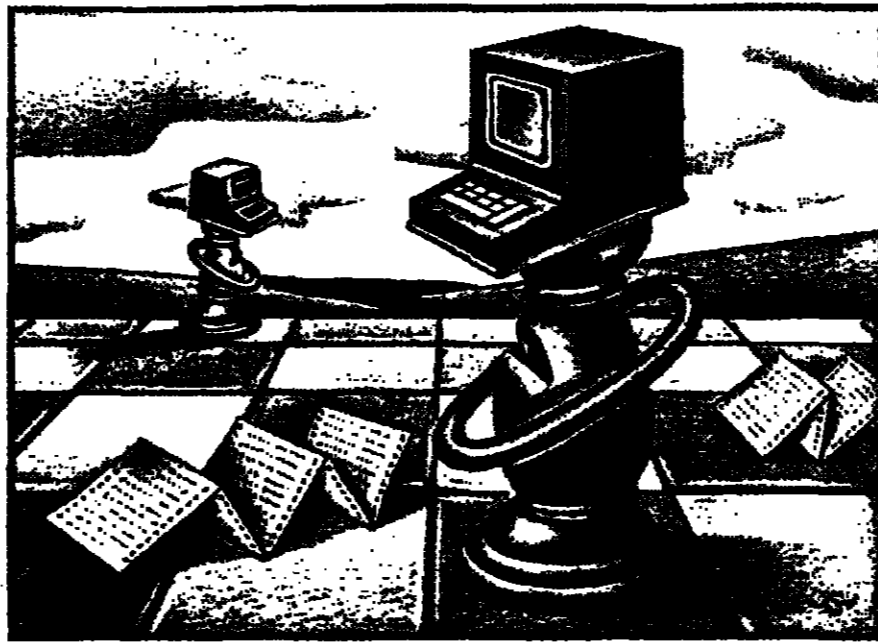
Just how well this emerging breed of fund will perform is still anyone's guess. For now, however, the funds are at least winning some high marks for effort. "I think anything that gives investors more choice is beneficial," says Joseph Grundfest, a member of the Securities and Exchange Commission.

In the past, most individuals had little opportunity to participate in program trading. Index arbitrage, a method of profiting on price disparities between stocks and futures contracts, requires elaborate computers, anywhere from \$5 million to \$25 million in capital and a team of talented technicians. Portfolio insurance, though less demanding in its capital prerequisites, still calls for constant attention and a solid grasp of hedging theory.

Now, the admission price is falling. With a minimum investment of \$2,500, for example, individuals can take part in Strategic Investing, a new mutual fund offered by Dreyfus Corp. The \$18-million fund backs up its selection of blue-chip stocks with an insurance strategy, hints it may try stock-index arbitrage and boasts an array of other techniques, including selling stocks short in falling markets and buying issues with borrowed money to leverage its portfolio during rallies.

Dreyfus maintains that all this gives the fund "the flexibility to make money in almost any kind of market." And, in the first seven weeks after the fund's launch, net assets rose by 3 percent, compared to a 2 percent climb by the Standard & Poor's 500 Index.

Tax changes in the United States are partly responsible for the creation of such funds. Michael Lipper, president of Lipper Analytical Services, says a tax provision that had discouraged mutual funds from deriving more than 30



Charles Walker

percent of their income from short-term investments was amended to exempt income earned from "hedging."

But Mr. Lipper also suggests that fund managers sought an attractive marketing opportunity in program trading. "There is a consumer market intrigued by this kind of thing because of press reports saying, rightly or wrongly, that programs make stocks go up and down," he adds. "I imagine there will be more funds following if these ones prove successful either from a marketing or an investing standpoint."

For investors, the main task is to examine how the techniques work and what they can — and cannot — accomplish for the funds.

PORTFOLIO INSURANCE, the most common program strategy among the new funds, started to gain favor among institutional investors about two years ago, following the development of the stock-index futures market. The strategy calls for assembling a portfolio that moves in step with a major stock index, and then reducing the risk through systematic use of futures contracts based on the index.

"You end up participating pretty well when the market is rising, and you can sleep at night when the market is falling," asserts Girish Reddy, a senior vice president at Leland O'Brien Rubenstein Associates, a money management firm and a leading practitioner of the strategy.

Over periods of five years or more, Mr. Reddy concedes, an insured stock portfolio will probably lag an uninsured counterpart because of hedging expenses. He adds, however, that an insured stock portfolio will generally outperform financial assets invested the conventional way: 60 percent in equity, the rest in money market instruments. "Many investors are hedging inefficiently," Mr. Reddy argues.

(Continued on Page 11)

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BOURSES

Cashing In on Europe's Denationalizations

(Continued from Page 9) the most extensive plans for privatization. It has been a key component in the conservative agenda pursued by government of Prime Minister Margaret Thatcher since coming to power in 1979. So far more than £7 billion in state assets have been returned to the private sector. Aside from British Telecom, Jaguar, Britoil and Cable & Wireless have been among the more well-known companies to be sold off. In the next three fiscal years, the official plan is to sell off £5 billion worth of assets a year, and the government continues to widen the range of targets for privatization. Those expected this year include British Airways, British Airports Authority and Rolls Royce. In France, the privatization program began last March with the election of conservative parties in legislative elections. Prime Minister Jacques Chirac has promised to sell off 65 companies, worth between 200 and 300 billion francs, over the next five or six years, reversing the 1982 program of nationalizations that followed the election of Socialist President François Mitterrand.

The list of assets includes such companies as Compagnie Financière de Paris, Assurance Générale de France, Crédit Commercial de France and Compagnie Générale d'Electricité, TFI, France's biggest and oldest television network, and Agence Havas, a media conglomerate. Economic and political factors have spurred the rush toward privatization. Faced with growing budget pressures because of slow economic growth and rising unemployment, governments view privatization as a way of maintaining spending levels without borrowing or raising taxes. "It has become more politically impossible to go on raising taxes and this is a relatively painless way of obtaining additional revenues and avoiding the need to raise taxes," says Chilton Thomson, a director of American Express Asset Management. There has also been a growing dissatisfaction with the inefficiency of many state-owned enterprises, which are increasingly seen as unwieldy bureaucracies. Reluctant to continue meeting the cash demands of state run companies, governments would rather expose such industries to free market forces to promote their competitiveness. "This particular government has felt for a long time that state interference was detrimental to running companies," notes Roger Nightingale, chief economist for Hoare Govett, referring to the Thatcher administration. "It wanted to get companies like Jaguar and American back into public ownership. These were ordinary companies that happened to be state-owned." Of course, underpinning the privatization drive has been the long bull market in equities. Not only has it popularized share ownership, but has also expanded the capitalization of stock markets, enabling them to adequately absorb a series of large offerings. Newly privatized companies are generally considered good short term investments by most analysts. "Investors get exposure to parts of the economy they haven't been able to get at before," says James Anderson, manager of European equities at Bullfinch Gifford and Co. Ltd., an Edinburgh fund manager. "They also get exposure to companies that have improved by being in nationalized hands." Indeed, both the French and British governments have toiled in recent years to improve the quality of the companies they own. For example, British Airways went on a cost-cutting campaign last year that reduced its gross debt to £138 million in March. And there is already talk that the Thatcher government may assume the £200 million debt burden of Rolls Royce before the company is offered to the market.

Casting a Pall Over London's Gray Market



LAST FALL, investors eager to deal in British Gas did not have to wait for the shares to be issued. Instead, they could trade in what is known as the gray market, where prices were being quoted on commitments to deliver shares when the issue was officially listed. But this free-wheeling trading in privatization shares yet to be issued seems to be grinding to a halt, largely because of the government's anger over the frantic gray-market activity in British Gas shares. Gray-market dealings freed a speculative attitude toward the offering and greatly complicated its pricing, officials have complained. Until the flap over British Gas, London's gray market had been propelled along at a feverish pace by three niche players: Harvard Securities, Prior Harwin, and Cleveland Securities. With a fizzle unmoored under the din of Britain's Big Bang of deregulation, the first two recently withdrew from the gray market altogether, while Cleveland has sworn off advance dealing in privatization issues, including that of British Airways at the end of this month. "We had such an adverse reaction in the U.K. press about our dealing in British Gas shares," prior to the official listing, says Harvey Lawrence, chief of corporate finance at Cleveland Securities. "That was decided that we won't be active in gray market dealings during other privatizations." Mr. Lawrence insists that there has been no official pressure from government authorities to close down the gray market. But Hill Samuel

Group, the merchant bank handling the British Airways floatation for the government, has let its distaste for gray-market dealing in the issue be known through reports appearing in the British press. Mr. Lawrence, clearly aggravated by hostile press commentary alleging that gray market dealing presents a misleading picture to investors about the anticipated pricing of a new issue, says, "In the past 80 issues, we've been absolutely right on the price, with the exception of one issue." In the late-November £5.6-billion British Gas floatation, priced by the government at £1.35 per share, both Cleveland and Prior Harwin bore the brunt of barbs that the gray market was underbidding shares in British Gas by at least 10 pence. For Cleveland, as was the case with its two sidelined competitors, the roster of clients interested in playing the unofficial market includes large institutions—primarily banks and pension funds. "We've had several calls from institutional clients expressing disappointment about our decision not to participate in privatization issues," Mr. Lawrence says, "they feel that our absence will mean a lack of a fair indication of price." Warren Getler

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ish Petroleum if the Thatcher government triumphs in the next election, these privatizations are far more problematic because of serious financial and political difficulties. "Almost by definition the obvious, easy, attractive candidates have been done first," says Max Ward, who manages British equity portfolios at Bullfinch Gifford. "We are now into the slightly more tricky ones being done. BA is even a less straight forward investment than British Gas." Not surprisingly, global portfolio managers are placing greater emphasis on the privatizations in France where banks, insurance concerns and media companies dominate the schedule. "Paris tends to be a little more attractive than the forthcoming British privatizations in lumbering utility companies," says Richard Reid, an economist at Phillips & Drew. "Investment in an aircraft company is not the most attractive stock for some investors." IN ADDITION, some analysts are more upbeat about the economic situation in France than in Britain. Michael Woodward, an investment manager at Ivory & Sims, an Edinburgh-based pension fund manager, notes that French corporate profits are expected to grow faster than any other major European economy this year and next. As a result, the outlook for the Paris Bourse looks decidedly more upbeat than for the London Stock Exchange.

Aside from Paris, whose consolidated net income is expected to reach compared to 3.7 billion francs (about \$387 million) in 1986, investors are also eagerly awaiting the privatization of Agence Havas, an advertising and publishing group that will likely be sold off this year. Thanks to its 25-percent stake in Canal Plus, France's nationwide cable television network, its net profit is forecast at 320 million francs in 1986, compared with 22.8 million francs in 1985. Likewise, analysts speak highly of CCF, a retail bank that specializes in information technology and has been growing faster than any other French bank, and Assurance Générale de France, the giant insurance concern whose 1986 earnings are estimated at 1.6 billion francs, up healthily from 1.3 billion francs in 1985. Still, the recent weakness of the franc and industrial unrest could delay the government's schedule. "Now the government has run into political trouble, there are questions if it will be able to carry out its privatization program at the rate and amounts which it is envisaging," says Amex's Mr. Thomson, who points out that increasing interest rates in defense of the franc could derail the stock-market's rally. If so, this could well undoubtedly upset the delicate balance between supply and demand that was so crucial to the success of the Saint Gobain issue. Some analysts are already worried that the bourse can absorb everything the government wants to bring to market. "This can't go on forever," says Wallace Wormley, director of international capital management at Prudential Insurance Co. in the United States. Nonetheless, French companies do not face the same threat of renationalization posed by the possibility of a Labor Party victory in Britain's next general election, expected this year. A Labor return to power could mean investors are repaid their share at its cost, not at market value. Such fears, analysts say, have already prevented British Telecom's share price from rising rapidly. A more immediate concern for individual investors, however, is how to obtain shares. The success of British Gas and Saint Gobain issues underscored the emphasis both British and French governments place on attracting the small shareholders. In both instances, the amount allocated to institutions and overseas investors has been reduced. Yet foreign investors have been disappointed by the relatively small amounts they have been able to buy. In France, the government has restricted foreign ownership to 20 percent of future issues. Yet because of strong domestic demand the actual amount sold to foreigners has been smaller. In the case of Saint Gobain, 18 percent of the offering made its way into foreign hands. This compares with only 12 percent of the shares in British Gas, despite an initial allotment equivalent to 20 percent.

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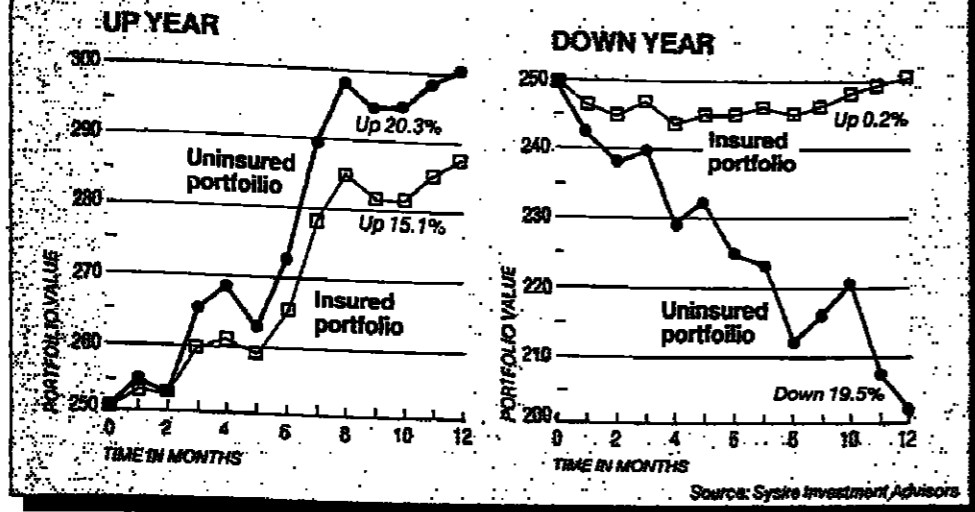
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حسابات الأصيل

FUNDS

The Insurance Game

Hypothetical projections of how an insured portfolio would fare 12 months in two market scenarios. The uninsured portfolio tracks the S & P 500.



An Emerging Breed of Funds Uses Computerized Strategies

(Continued from Page 9)

stock for futures when the futures are underpriced relative to the index, effectively winning a quick profit while continuing to participate in the index's performance. Conversely, the fund may jump back into stock when the futures are overpriced compared to the index.

Arbitrage, however, could complicate Kipper's insurance effort, for program traders say that insurers are sometimes selling futures automatically at the same time arbitrageurs are buying the contracts.

The Kipper filing does not specify how extensively the fund will use arbitrage, and Kipper officials refused to comment at all on the fund until the SEC takes action. But several program traders suggested that the fund, called the MarketGuard Appreciation Fund, may concentrate on the performance of its insured portfolio, becoming an arbitrageur only under certain circumstances.

"That fund could have some pizzazz," said Jeffrey Miller, a principal in Miller Tabak and Hirsch,



Bidding at the Chicago Mercantile Exchange on S&P 500 contracts. Funds with portfolio insurance make heavy use of index futures contracts.

which helped pioneer index arbitrage. "If you worked hard enough at it, you could make up some of the costs of insurance," he suggests.

Not everyone, however, is optimistic about the future of "insured" funds. In fact, Wall Street has raised serious questions about portfolio insurance. While insured portfolios are believed to total \$40 billion, that is just a fraction of all institutional holdings.

Critics point out that hedging with futures involves steep transaction costs. This can lead to mounting expenses in a flat market since a fund manager has no chance of making money on a contract unless its price varies. Moreover, hedging costs can also eat up profits during rallies. At the same time, there are no guarantees that insurers will execute their hedging properly in declining markets. "I think it's very risky," says William Morris, a pension consultant at Mercer-Meldinger Inc.

David Testa, president of T. Rowe Price Associates' Growth Stock fund, says he is unconvinced mutual funds can devise adequate

revenue-boosting ploys to offset insurance expenses. None of the new funds has as many methods at its disposal as the Dreyfus offering, but even so Mr. Testa wonders how many of Dreyfus' techniques are "appropriate adjuncts" to insurance.

"If you're going to go out on leverage in a rising market and then use insurance to somehow underpin that position, I'd have to think real hard whether that makes sense," Mr. Testa says.

Whether index arbitrage can contribute significantly to returns in coming years is also debatable. Experts have long theorized that arbitrage opportunities will all but vanish as more players take part, and already arbitrageurs report diminished opportunities with some index strategies.

More broadly, program traders are frequently blamed for contributing to stock market gyrations — the very volatility insurers aim to avoid. When futures prices sink, critics complain, arbitrageurs buy up the contracts and dump massive amounts of stock, depressing prices in hundreds of issues for largely technical reasons.

Portfolio insurers are said to accelerate the stock dive when their computers trigger the sale of futures. "The portfolio is insured, but the overall market volatility is increased," reasons Sandy Lincoln, a pension consultant with A.S. Hansen Inc.

IF SUCH WORRIES persist, regulators might eventually clamp down on program trading.

For now, however, program traders seem free to ply their trade. And, while the still-nascent strategy of insurance has yet to face the test of a prolonged bear market, practitioners insist the results have been pleasing so far. From Aug. 22 through Sept. 12, for example, when the S&P 500 plunged 7.8 percent, the RepublicBank-Skye fund reported a drop of about three-quarters of one percent.

With strategies like that circulating, not with Wall Street's maturing bull market prompting jitters among investors, more insurance funds cannot be far behind. □

Why the Funds Lagged the Market in '86

The strength of blue chips made it hard for managers to outperform the major indexes.

By Vartan G. Vartan

INVESTORS STORMED into U.S. mutual funds last year, but they probably would have been better off investing in blue-chip stocks. Despite a healthy return, the average performance of equity funds in the United States lagged the Dow Jones Industrial average and the Standard & Poor's index of 500 leading stocks.

The roster of 568 general equity funds produced an average total return of 13.39 percent. By contrast, the S&P 500 index had a total return, including dividends, of 18.71 percent, while the total return of the Dow average was 27.25 percent. The investment concentration during 1986 on large-capitalization blue-chips is cited as the major reason why the market indicators had a better showing.

Thanks in part to the declining dollar, international funds ranked as the best performing sector of the mutual fund industry in 1986 with a total return averaging 53.25 percent. The internationals ranked second behind the health care funds in 1985.

Gold and precious metal funds staged a comeback. As a group, their performance ranked second only to the international funds and showed an average total return of 36.07 percent.

Results for the fourth quarter, however, showed a change in leadership. "Capital appreciation funds and technology funds — relatively poor performers for the year as a whole — ranked among the best gainers," according to Michael Lipper, president of Lipper Analytical Services, which monitors the fund industry.

For the final quarter alone, top honors went to two small funds. First was the \$4.3-million Deicap Fund I with a return of 17.36 percent. It was followed by 44 Wall

How Mutual Funds Have Performed

Funds showing largest percentage changes in net asset value in 1986 from 1985, and in fourth quarter from previous quarter.

Annual Changes	
Gainners	Losers
New England Zenith Capital Growth +95.21%	88 Fund -30.54%
Merrill Lynch Pacific +78.05	American Heritage -26.05
Namura Pacific Basin +74.46	Fidelity Select Electronics -23.85
Newport Far East +73.26	Bowser Growth -22.89
Financial Portfolio Pacific +72.49	Strategic Capital Gains -21.39
GT Pacific Growth +72.04	Dividend/Growth Leader, Advanced Technology -21.16
Fidelity Overseas +69.25	Steedman American Industry -19.72
BBK International +61.97	44 Wall Street -16.26
T. Rowe Price International +61.29	Fidelity Select Energy Services -15.75
GT Japan Growth +60.62	First Investors Natural Resources -14.85

Quarterly Changes	
Gainners	Losers
Deicap Fund I +17.36%	Strategic Silver -10.43%
44 Wall Street Equity +17.11	Bowser Growth -9.90
First Investors U.S. Government Plus I +14.86	Rochester Convertible -8.83
Financial Portfolio Technology +13.94	Sherman Dean Fund -8.57
USAA Gold +12.89	Schild Aggressive Growth -7.82
Trustees Commingled International +12.84	American Capital Life Stock -7.72
Benham Target 2010 +11.43	Rochester Growth -6.95
Fidelity Select Computer +11.00	Wealth Monitors -6.94
Gintel Erisa +10.83	Fidelity Select Life Insurance -6.77
IDS Precious Metals +10.41	Strategic Capital Gains -6.44

Street Equity, with assets of \$8.2 million, which was ahead 17.11 percent. Both are capital appreciation funds, which as small funds can rack up excellent performance records by hitting it right on just a few stocks.

Similarly, the No. 1 performer for the full year, out of a total of 950 funds of all types, was the \$7-million New England Zenith

that rose sevenfold between May and December.

"We went in and out of Home Shopping several times during the year," Mr. Heebner says. His fund currently has about 25 percent of its portfolio in technology stocks that are focused on the microcomputer business or small computers, including Apple Computer, Lotus Development, Digital Equipment, Telex and Seagate Technology.

MUTUAL FUNDS concentrating their investments in the Pacific Basin showed the best records among the internationals. The best performer in that group was the \$420 million Merrill Lynch Pacific Fund, which benefitted from the sharp rise of Japanese stocks.

"Slightly less than 75 percent of our assets are currently invested in Japan," says Stephen L. Silverman, the portfolio manager. "We continue to favor property-casualty stocks, which have very conservative accounting practices that, in effect, hide their earnings dramatically." The fund's largest single holding is an Australian stock, AFP Investment Corp., a holding company that constitutes 7 percent of the portfolio.

Fidelity Overseas Fund, the industry's top performer in 1985, when it gained 78.68 percent, took seventh place last year with a return of 69.25 percent.

The \$6.5-billion Fidelity Magellan Fund, which is managed by Peter Lynch, shows the best performance for the 5, 10 and 15 years ended in 1986. Over 15 years, for example, its total return is 1,721.83 percent. Magellan rose 23.74 percent last year.

Natural resource and technology funds, along with small company growth funds, ranked among the laggards in 1986.

The two poorest performers — 88 Fund and American Heritage Fund — were among the smallest funds covered in the survey. The 88 Fund, based in Columbus, Ohio, invests only in Ohio-based companies. For the year, it showed a decline of 30.54 percent. The current market value of its portfolio is \$145,000.

American Heritage, based in New York City, has \$600,000 in net assets. It dropped 26.05 percent in value last year. At both organizations, officials said that, in large part, the poor performance was a function of the fund's size. For a small fund, they noted, the legal, accounting and other expenses can offset any performance gains. □



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VE COVERAGE OF CAN STOCKS

READERS HERLANDS

THE TRADER

Short-Selling: OTC Data Debunks Some Myths

The publishing of monthly figures sheds some new light on this important market.

By Karen Polk

INVESTORS IN U.S. over-the-counter stocks have a new tool to help them pick their way through the more than 4,000 issues that trade through Nasdaq...

Sizing Up Short Sales

- Experts say short interest is generally not meaningful as a sentiment indicator unless it is equivalent to at least 10 to 20 percent of a company's total outstanding shares.

exchanges. And when there was a significant short interest in a particular stock, it was often for all the right reasons...

The big surprise that the new data has shown is that everybody was expecting the OTC short sale figures to be so huge because there's so much shorting done in this marketplace...

Moreover, many observers believe publishing short interest is a vital step in the development of the Nasdaq market.

Understanding this new mechanism and interpreting the information may take practice, however. The monthly published charts list the number of short positions in a stock, compare it to the previous month...

The reason is that short figures do not always reflect the opinion that investors may have about a particular stock. If a company is also trading convertibles, warrants or options...

The NASD indicates potential arbitrage candidates on its list, but the association limits its search for arbitrage opportunities to instruments listed on

Nasdaq and the stock exchanges. Many companies in the OTC market, however, trade instruments equivalent with their common stocks...

Of the 10 companies with the largest short interest listed in the December report, only four were flagged for arbitrageable instruments...

In both instances, traders suspect that arbitrage activity contributed to the short position. In the case of Electromedics, the short interest was equivalent to 3.7 percent of its 42.5 million outstanding shares...

Moreover, a sizeable short position might actually reflect a battle between supporters and short-sellers of a stock, which often creates wild price fluctuations.

With the reporting still in its early stages, problems have already arisen. In the first listing, which appeared in late November, two stocks were reported to have short interest far above and below the actual figures...

But despite a troubled start, some experts are already drawing favorable conclusions based on the short interest data. The December listings of short interest, they note, showed a 3 percent decline over the revised November figures...

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STRATEGY

Choosing the Right Dollar

Seeking haven in the one from Canada.

INVESTORS who have been overwhelmed by the turbulence that has surrounded European currencies and the dollar this year might want to take a second look at the Canadian dollar.

Last week, Merrill Lynch recommended that its clients overweight Canadian dollar instruments in their bond holdings. As a guide, Merrill doubled the exposure in their own model portfolio to 10 percent...

Michael Rosenberg, head of international fixed-income research for Merrill Lynch, attributes the portfolio adjustment to a fondness for undervalued currencies. He argues that the Canadian dollar is one of the few major currencies that remains severely undervalued relative to the U.S. currency.

"It's a myth that the Canadian dollar and the U.S. dollar move in tandem," says Mr. Rosenberg. "After they were at parity back in 1976, the Canadian dollar has been in a declining trend. And we think that's been overdue."

Indeed, while the U.S. dollar continues to weaken, he says the Canadian dollar is on the verge of making some headway in 1987. He credits Canada's narrowing current account deficit as well as political pressure from Washington, which is seeking to reduce the U.S. trade deficit with Canada.

Moreover, Mr. Rosenberg also likes the high yields available in Canadian instruments, which could work in favor of higher prices. As inflation in the United

Market Scoreboard

Stocks on the New York, London and Tokyo exchanges that showed the largest percentage gains and losses in December

Table with columns for GAINERS and LOSERS, listing stock names, percent gain/loss, and prices for New York, American, London, and Tokyo Stock Exchanges.

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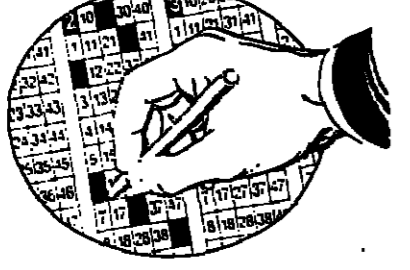
Table showing prize breakdown with columns for prizes, number of prizes, and prize value.

*All prizes quoted in Canadian dollars. 1st, 2nd, 3rd, and 4th prizes are calculated on a percentage of the total prize pool. Since the prize pool fluctuates from draw to draw, the size of the prizes will vary from the size of the prizes shown above.

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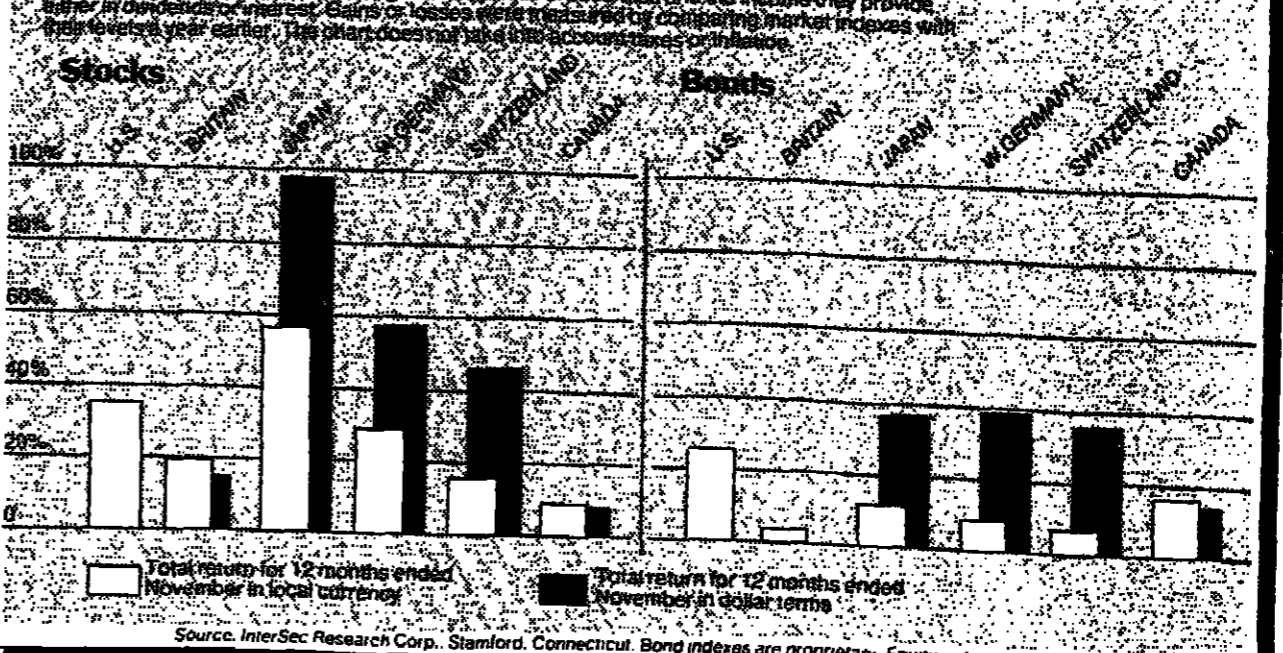
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Weekly International Bond Prices

Provided by Credit Suisse First Boston Securities, London, Tel.: 01-423-1277. Prices may vary according to market conditions and other factors.

Jan. 16

Table of Dollar Straights with columns for Issuer, Con, Mat, Price, Yld, and various regional sub-sections like Australia, Canada, France, Germany, etc.

Table of International Bond Prices for various countries including Japan, Western Europe (Other), DM Straights, and DM Zero Coupons.

American Exchange Options

Figures as of close of trading Friday, Jan. 16

Large table of American Exchange Options with columns for Option & Price, Calls, and Puts, listing various companies and their option prices.

Table of DM Zero Coupons and DM Straights, listing various issuers and their bond prices.

Chicago Exchange Options

Figures as of close of trading Friday, Jan. 16

Large table of Chicago Exchange Options with columns for Option & Price, Calls, and Puts, listing various companies and their option prices.

Advertisement for WestLB (Westdeutsche Landesbank) featuring the text 'Fixed Income and Equities Trading - for dealing prices call:' and contact information for various international offices.

New International Bond Issues

Compiled by Laurence Desvillettes

Table with columns: Issuer, Amount (millions), Mat., Coup. %, Price, and Terms. Includes sections for Floating Rate Notes, Fixed-Coupon, and Equity-Linked.

Bond Prices Up After Rise On Treasury Futures Mart

By H.J. Maidenberg New York Times Service NEW YORK — Prices of government bonds posted their best advance of the week Friday after a strong closing rally in the Treasury bond futures market.

U.S. CREDIT MARKETS

percent issue due in 2016, was up 17/32, at 102 3/32, to yield 7.33 percent, compared with 7.28 percent a week earlier.

Dealers said that, aside from the sudden surge in bond futures prices, there were no significant developments to sway fixed-income debt either way.

The cash government securities market is closed Monday for the Martin Luther King birthday holiday, and the Treasury's regular weekly auction of three- and six-month bills will be Tuesday.

"Because the Treasury cash bond market will be closed Monday, some traders seeking to hedge their short positions over the weekend did so in the futures market," said Frederick T. Leiner, senior financial futures analyst at Prudential-Bache Securities in Chicago.

EDF Renegotiation May Show Market's Direction

By Carl Gewirtz International Herald Tribune PARIS — With banking supervisors getting together on banks' off-balance-sheet lending commitments and banks themselves wary about increasing such business, Electricité de France decided last week to renegotiate the terms on an existing backup facility rather than try to arrange a new \$1 billion line of credit.

INTERNATIONAL CREDIT

most bankers doubt that a jumbo loan could succeed in today's market and certainly not with pricing regarded as aggressive.

World Bank Plans to Curtail Swaps

International Herald Tribune PARIS — The World Bank, regarded as one of the biggest participants in the international swap market, expects to curtail its activity, according to the bank's treasurer, Engene H. Rotberg.

Currency swaps have slowed, he said in an interview, "because interest rate differentials have narrowed to the point where it doesn't make much sense."

The current volatility in exchange rates further clouds the bank's assessment on whether there is any advantage to arranging a swap, he said.

The bank's swap activity, converting fixed-rate debt into floating rates or moving from high-cost to low-cost currency, is aimed at achieving the lowest possible cost of borrowing so as to be able to charge the lowest possible rate on its own loans to developing countries. The rate is currently 7.92 percent.

The bank, owned by 151 governments, makes loans of more than \$16 billion a year to poorer countries.

front-end commissions to renegotiate the loan are about half what it would have to pay for a new loan.

Utilization fees will crumble to 2 1/2 basis points over Libor for drawing up to one-third of the amount, 5 basis points for up to half, 7 1/2 basis points for up to three-quarters and 10 basis points for more than that.

Bankers are eagerly awaiting the response as this will give a clear indication of where the market is heading. It is assumed that a number of smaller banks will use the opportunity to drop out of the syndicate, which currently comprises about 70 banks. But it is also assumed that the Japanese banks, which underwrite only 20 percent of the original facility, will be prepared to increase their stake.

Tapping the Eurocommercial paper market without seeking specific new commitments for backup credit lines is ASEA Capital, the financing arm of Swedish manufacturer ASEA AB. It has appointed Enskilda Securities to market up to \$100 million of short-term paper.

Finland's government-owned chemical group, Kemira Oy, appointed Kansallis-Osake-Pankki, Morgan Stanley and Citicorp to market up to \$100 million of CP or the equivalent in European currency units.

British Printing & Communication Corp. named Hill Samuel to market up to £100 million of CP. In the syndicated loan market, Northeast Savings of the United States is seeking to raise \$100 million through a five-year collateralized credit. The loan will be backed by federal mortgage certificates and other mortgage-related assets, giving the debt a triple-A rating.

Lenders will be paid a margin of 3/4 point over Libor, a commitment fee of 15 basis points on any undrawn amounts and front-end fees ranging up to 25 basis points.

As for the World Bank itself, Mr. Rotberg said that it is not suffering from the swap activity. Its liquid assets in currencies other than the dollar total the equivalent of about \$6 billion, an amount that far exceeds the total swaps arranged by the bank.

In all, cash and liquid investments amounted to \$20 billion at the end of December, on which the bank was earning an average 8.44 percent interest.

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In all, cash and liquid investments amounted to \$20 billion at the end of December, on which the bank was earning an average 8.44 percent interest.

West German economy weakened as much as some forecasters expected this year. Moreover, an appreciating mark has forced West German exporters to accept steadily smaller profit margins as they resist raising prices to hold onto their market shares in other countries.

But there is nothing the Germans can do alone, or in combination with the Japanese, that will restore confidence in the dollar. Analysts in Europe see the Reagan presidency weakened for the rest of his term. Even if the U.S. trade deficit begins to fall, as most forecasters expect, it, like the budget deficit, will remain large for years to come.

Mr. Rotberg said very little of lar-denominated assets, he said. And with the United States so dependent on foreign capital to cover its international deficits, "you

What it took four years to put wrong will take four years to put right."

John Sangster, a former senior official at the Bank of England who handled the bank's foreign exchange matters, expects the industrial nations to "muddle through," but he expects great strains while they do so.

"I am sure the market will under-shoot on the dollar," he said. "What it took four years to put wrong will take four years to put right. ... In the meantime, we will have an excuse for protectionism and cause even more troubles."

CONFIDENCE: Europe's Faith in U.S. Is Sagging

(Continued from first finance page) United States was growing steadily more vulnerable economically and that foreign-exchange markets were reflecting this. Sooner or later, they said, the United States will have to take strong action to defend its currency. Measures could include raising interest rates or taxes sharply enough to threaten the four-year economic expansion.

The danger is not just for the United States. A recession there would reduce demand for goods from Europe, Japan and other countries, including many debt-laden Third World nations. Those countries might then slip into recession, too. A worldwide recession would put serious strains on financial institutions.

The last time a U.S. government had to defend the dollar was during the late 1970s, when there also was a significant lack of confidence in the currency and in the ability of the U.S. government to manage its economic and political problems.

Among other steps, the United States mounted dollar-rescue packages that included sizable increases in interest rates.

Seven or eight years ago, the chief economic problem in the United States, in the eyes of foreign investors and government officials, was an inability to control inflation. The chief worry now, the analysts say, is that the country is running by far the largest trade deficit in history.

A key question is whether investors in Europe and Japan, who last year put an estimated \$150 billion in U.S. government and private bonds and common stocks, to say nothing of investment in real estate and factories, will continue to pour so much money into the United States.

EUROBONDS: Underwriters Avoid Risk Amid Dollar Market Turmoil

(Continued from first finance page) many institutional investors can only purchase securities listed on an exchange.

While spreads vs. Treasury yields in general have been rising, a margin of 85 basis points was considered generous. The best evidence of this was the fact that the paper ended Friday trading at a discount of 1.15 points for a margin of 76 basis points over the Treasury yield.

Although there was much praise, in principle, for County NatWest's construction of the issue, there was considerable displeasure expressed in the market about the actual operation — raising an issue that delivers a thorough airing.

For County NatWest to make enough money from marketing the bond to cover the estimated \$2 million loss on providing the swap, the bank kept 60 percent of the issue for its own clients. This means that if County was able to sell all of its underwriting at the issue price and retain all of the 7 percent fees, it would have earned \$3.6 million. If it sold all of its underwriting at the closing discount of 1.15 points, the bank would have earned about \$1.8 million (having kept 0.15 percent of

the total commission as a precaution).

Competitors argue that County was greedy in keeping so much of the issue, and thereby the commissions, for itself, leaving ridiculously small amounts for the two co-lead managers and the 26 co-managers. The co-managers reportedly were offered \$2.25 million each.

Credit Suisse First Boston found this "monopolization" by the lead manager unacceptable and withdrew from the underwriting group. Other banks, which did not withdraw, complained loudly, albeit in the usual fashion, requesting anonymity.

The fact of the matter is that in swap-related transactions, the lead manager always comes out better than others. If the profit (hidden from the market) is earned on the swap, the swap provider gets to keep all of the gain. But building the profit into the bond at least gives co-managers, and ultimately investors, some share in the benefit. Surely it makes sense for underwriters to "pay" for successful issues by allowing the lead manager to keep the bulk of the profits rather than equally dividing the losses on issues that are consistently underpriced.

The question, then, is how much of a share of a new issue co-managers should be entitled to. The answer would seem to lie somewhere between the 40 percent Morgan Guaranty took (without a murmur from the market) as lead manager of the successful \$750-million (non-swapped) five-year note for Sweden and the 60 percent County took on the Belgian issue.

The market will get another chance to debate this question this week, when Austria is scheduled to market \$200 million of 10-year bonds.

Some critics contended that the late Friday discount of 1.15 points on the Belgian paper was artificial, low because underwriters, unaware of the small allotments, had sold more bonds than they were given. This forced them to buy paper — bidding up the price — to satisfy the commitments they had made.

Most of those commitments appear to have been to Japanese investors. Banks, trading companies and industrial firms are believed to be massive borrowers of dollars and using the funds to buy dollar bonds. Profits are earned on the percentage-point difference between the lower cost of the bor-

rowed funds and the higher return on the bonds as well as the potential capital gains to be made if U.S. interest rates continue to decline.

Central banks were reported to be big buyers of Sweden's five-year bonds, the maximum maturity that official institutions are usually willing to accept.

By contrast, European investors were big buyers of equity-linked paper. Last week's hot issue was Julius Baer Bank & Trust's 150 million Deutsche mark, seven-year bonds convertible into the bank's stock at a premium of 7 percent (each 10,000 DM bond is convertible into nine bearer participation certificates). The bonds ended the week at a premium of 112 after hitting a high of 118.

The British clothing company Burton Group set a record low coupon, at 4 percent, on a record high amount of £110 million of bonds convertible into shares at a 9 percent premium. Investors were particularly attracted by the "put" option, giving them the right to request a premium cash redemption after five years for an effective yield of 10 percent if the stock falls to 100 in price. The bonds ended the week at 104 1/2.

U.S. Consumer Rates table with columns: Period, Rate, and Source.

"We still have great confidence in Volcker and Baker to hold things together, but we wonder what will happen when they disappear?"

— A British banker

"We still have great confidence in Paul Volcker" and the U.S. Treasury secretary, James A. Baker 3d, "to hold things together," he said. "But we wonder what will happen when they disappear?"

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SOVIET: Despite Overtures, Western Companies Skeptical on Joint Ventures

(Continued from first finance page) some business culture. Here, you're talking about a collision of ideologies.

On the Soviet side, however, the enthusiasm seems real enough. According to Westerners, hundreds of American, European and Japanese companies have been invited to submit proposals. Joint ventures have been touted in the official press and at international trade meetings as a way of raising the quality of Soviet products to "world quality," increasing exports and upgrading industrial technology.

According to a senior Soviet trade official, Yuri A. Kislenko, the Soviet Union will offer partners in these ventures several years of tax-free operations, independence from the centrally planned economy, and freedom to experiment with such Western management techniques as incentive pay scales.

Treasury Bonds

Table with columns: Maturity, Bid, Ask, and Yield.

SELECTED U.S./B.T.C. QUOTATIONS

Table with columns: Bid, Ask, and Price.

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INTERNATIONAL POSITIONS table with columns: TITLE, SALARY, EMPLOYER.

NASDAQ National Market

OTC Consolidated trading for week ended Friday, Jan. 16

Main table listing various OTC stocks with columns for bid, ask, high, low, close, and change. Includes sub-sections A, B, C, D, E, F, G, H, I, J, K, L, M, N, O, P, Q, R, S, T, U, V, W, X, Y, Z.

Mutual Funds

Figures as of close of trading Friday, Jan. 16

Table listing mutual funds with columns for fund name, bid, ask, and other details. Includes sub-sections A, B, C, D, E, F, G, H, I, J, K, L, M, N, O, P, Q, R, S, T, U, V, W, X, Y, Z.

NASDAQ National Market

OTC Consolidated trading for week ended Friday.

Table with columns: Sales, High, Low, Close, Net. Lists various stock symbols and their performance.

Table with columns: Sales, High, Low, Close, Net. Lists various stock symbols and their performance.

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U.S., EC Meet in Geneva, Preparing for Trade Talks

WASHINGTON — U.S. and European Community negotiators are meeting in Geneva to discuss ways of settling a bitter dispute over \$400 million worth of lost U.S. corn and sorghum sales to Spain.

The Geneva talks are aimed at paving the way for a crucial meeting in Washington on Friday and Saturday, when senior ministers will try to resolve the dispute before punitive trade reprisals begin at the end of January.

The principal issue is how much grain the EC is willing to import each year to compensate the United States for the access to Spanish grain markets that it lost when Spain joined the EC on Jan. 1, 1986.

In December, the EC offered to import 1.6 million metric tons (1.76 short tons). The United States had demanded that it take 4 million metric tons. Washington then announced retaliatory tariffs to take effect Jan. 31.

The U.S. trade representative, Clayton K. Yeutter, Agriculture Secretary Richard E. Lyng and the EC's external trade commissioner, Willy den Cloey, and agriculture commissioner Frans Andriessen will attend the Washington meeting.

In Geneva, representatives from both sides hoped to discuss the text of a draft agreement that could form a basis for bargaining, an EC official said. EC representatives would also discuss whether to include industrial products in the negotiations, which so far have been limited to agricultural products, he said.

The talks on the EC-U.S. dispute are likely to overshadow the original reason for the Geneva meeting, which was to discuss how to start a new round of global negotiations on agricultural trade.

Representatives of 10 major agricultural producers and consumers, the so-called Morges group named after the Swiss village where diplomats have met in the past, are to meet Monday to discuss ways of resuming the talks.

Efforts to set an agenda for talks under the General Agreement on Tariffs and Trade broke down in December because the United States and EC could not agree how to proceed.

U.S. to Replace Envoy With White House Aide

By Peter Maass International Herald Tribune

BRUSSELS — In an unexpected reshuffling, the White House plans to replace its top envoy to the European Community.

U.S. officials say William J. Middendorf 2d, U.S. ambassador to the EC, is returning home after 18 months on the job. He will be succeeded by Alfred H. Kingston, who has worked in the White House since 1985 as a presidential aide and secretary of the cabinet.

Mr. Kingston, 55, was an assistant secretary of commerce for international economic policy in 1983 and 1984, then assistant secretary of the Treasury for policy, planning and communication.

His sudden appointment surprised a number of officials in Brussels. "It caught us completely off guard," said a diplomat in the U.S. mission to the EC. "We had no idea it was coming."

Sources in Washington and Brussels said the change in the key diplomatic post did not herald a policy shift by the Reagan administration. Rather, they indicated that Washington was not pleased with Mr. Middendorf's performance.

Before being named to the Brussels post in July 1985, Mr. Middendorf was U.S. ambassador to the Organization of American States. Officials in Brussels said Mr. Middendorf, 62, had not yet decided on his next job.

The diplomats confirmed that Washington asked the EC last month for preliminary approval of Mr. Kingston as the new envoy. The EC's green light is expected to come in a few weeks, after which Mr. Kingston is to be formally nominated by the White House.

He then faces confirmation hearings before the Senate Foreign Relations Committee, followed by a full vote of the Senate. It might be several months before he arrives in Brussels.

The U.S. ambassador to the EC has a staff in Brussels of 35 diplomats, who follow community affairs and serve as a key link between the EC and Washington. The ambassador does not set U.S. policy, but he participates in all high-level Brussels meetings and has daily contact with top EC officials.

Third, the commission is said to be urging a change of the EC's structural funds, which are aimed at funding development aid to the poorer member states, mainly those in the south.

Mr. Delors held talks last week with the Italian, Belgian, Portuguese and Spanish leaders. This week he is to meet with the government heads of Luxembourg and France. His proposals will be formally unveiled after his tour ends.

STEEL: Union, USX Reach Pact

(Continued from first finance page)

It was not disclosed how long the contract would run.

The tentative agreement was also reported to include some restrictions on hiring outside contractors to do mill work, traditionally done by union workers, the sources said.

The union has charged that "contracting out" has enabled USX to cut costs while eliminating union jobs.

Sources said the tentative settlement included job reductions, although the amount was not known. Pensions will reportedly be offered to two older workers for each job cut so that younger laid-off employees can be recalled.

Delors Visits Capitals With Budget Proposal

By Peter Maass International Herald Tribune

Jacques Delors has begun his quest for a long-term accord to save the community from bankruptcy.

The EC Commission president left Jan. 10 for Rome, the first stop of a tour of the 12 community capitals for special budget talks with government leaders. The last stop is to be Bonn, on Feb. 13.

Mr. Delors is presenting the leaders with the commission's long-awaited plan for overhauling community finances. At last count, the EC was headed this year for a deficit of at least 2.5 billion European currency units (\$2.1 billion).

The commission's proposal contains three main elements, sources said. It reportedly calls for replacing the community's VAT-financed payments system with one based on a country's gross national product.

Second, payment of farm subsidies would apparently be altered to provide for separate budgets for each agricultural product sector, such as cereals and milk. The burden of paying for overproducing in one sector would not fall on other sectors.

Third, the commission is said to be urging a change of the EC's structural funds, which are aimed at funding development aid to the poorer member states, mainly those in the south.

Mr. Delors held talks last week with the Italian, Belgian, Portuguese and Spanish leaders. This week he is to meet with the government heads of Luxembourg and France. His proposals will be formally unveiled after his tour ends.

International Bond Prices

Table listing bond prices for various countries including Canada, Mexico, and the U.S. Includes columns for issue, price, and yield.

Yen Straights

Table listing exchange rates for various currencies against the yen, including the dollar, pound, and franc.

Euromarts At A Glance

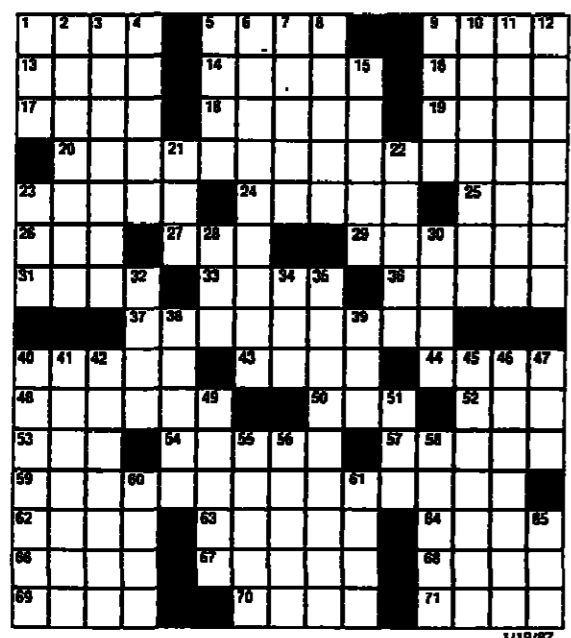
Table listing exchange rates for various European currencies against the dollar, including the mark, franc, and pound.

Escorts & Guides

Table listing travel agencies and their services in various international locations.

Escorts & Guides

Table listing travel agencies and their services in various international locations.



ACROSS
1 Nile ophiophidians
9 Hitch
10 Growl
13 Thrush
14 Domesticated
16 Jacob's third son
17 Double negative
18 Former Broadway hit
19 Muscat site
20 "The Color Purple" star
23 Kind of signal
24 Dead duck
25 R.S.V.P. part
26 — Aviv
27 Genetic letters
29 An abrasive
31 Dangling site
33 Dirty bag's cousin
36 Map detail
37 Fuss
40 Juliet's beloved
44 Wading bird
44 One of the tenets
48 Driving reversals
50 Paddle's next of kin
52 Corp. boss
53 "— in the bag"

© New York Times, edited by Eugene Malachuk.



MY TEACHER SAID I WAS 'UNKEMPT'. WILL YOU GET ME KEMPTED TOMORROW?

JUMBLE. THAT SCRAMBLED WORD GAME by Henry Arnold and Bob Leo. Includes a grid with letters and a cartoon illustration.

Answers to Jumble: TONG CHASM PARLOR RADUIS

WEATHER

Table with weather forecasts for various cities including Amsterdam, Berlin, London, and others, listing high and low temperatures.

MONDAY'S FORECAST - CHANNEL 5 SHOW, FRANKFURT: Foggy, Temp. 7-11; LONDON: Foggy, Temp. 7-11; MADRID: Cloudy, Temp. 12-19; MILAN: Foggy, Temp. 7-11; PARIS: Foggy, Temp. 7-11; ROME: Cloudy, Temp. 12-19; VIENNA: Foggy, Temp. 7-11; ZURICH: Foggy, Temp. 7-11.

SPORTS BRIEFS

Three Indoor World Track Records Are Set
LOS ANGELES (Combined Dispatches)—Greg Foster set a world record in the 60-meter hurdles an international track meet here Friday night.

Langer Coasts to 1-Shot Lead in Hope Golf
LA QUINTA, California (AP)—West German Bernhard Langer coasted to a 2-under-par 70 Saturday for a one-stroke lead over Mark Calavecchia after four rounds of the Bob Hope Classic golf tournament.

ALAMO LAID SOLE
SUDAN EDNA ELAN
SNAKE AVER VEND
TAMED SEEKPEACE
PAPER EARNED
REDEYE SORT
ARIA EVEN SPASIN
PASCAL LAYETTE
ANSKEW SKYE ALAN
ARTE RECITE
STROKE ECOLE
PEACEPIPE OTHER
ERNE ODIN PIANO
AREA RENT EMMETT
KEEN TAGS REISE

PEANUTS
I JUST SAW A LADY THROW SOME BREAD CRUMBS OUT OF HER WINDOW...

BLONDIE
THAT'S AUNT JAMAR!

BEETLE BAILEY
TODAY SARGE SAID THE FIRST THING THAT I AGREE WITH...

ANDY CAPP
DEPRESSED, PET?

WIZARD of ID
WE'VE BUILT A PROTECTIVE SHIELD ON THE BALCONY FOR SECURITY PURPOSES...

REX MORGAN
HAVING RECOGNIZED GREGORY AS MONICA'S BOYFRIEND...

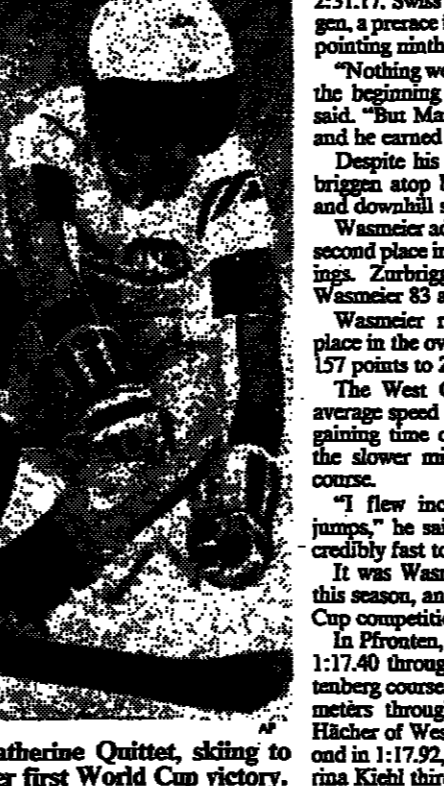
GARFIELD
GARFIELD! WAKE UP!

Middle East, Oceania weather forecasts.

SPORTS

Wasmeier and Quittet Ski to Surprising Victories

WENGEN, Switzerland—Giant slalom champion Markus Wasmeier of West Germany upset the favored...



Catherine Quittet, skiing to her first World Cup victory.

It was the second straight day the West Germans had done well. They took four of the top seven spots in Friday's downhill at Pfronten.

Swiss Win Both Slaloms

BISCHOFSWIESEN, West Germany—Maria Walliser skied to a convincing victory Sunday in a women's World Cup giant slalom race in which Swiss teammates took the next three spots...

WALLISER, 23, who is leading the women's overall standings with 229 points in her bid to retain that title, was clocked in 2 minutes 19.24 seconds for two runs on the Obereichen Course.

WORLD STOCKS IN REVIEW / Via Agence France-Presse

Amsterdam
The Amsterdam Stock Exchange staged a modest recovery last week, as the ANP-CBS general index held firm at 271.1, against 271.3 the previous Friday.

Hong Kong

The Hong Kong stock market opened strongly Monday before suffering moderate setbacks later in the week in what dealers said was a correction after surges in the past two weeks.

London

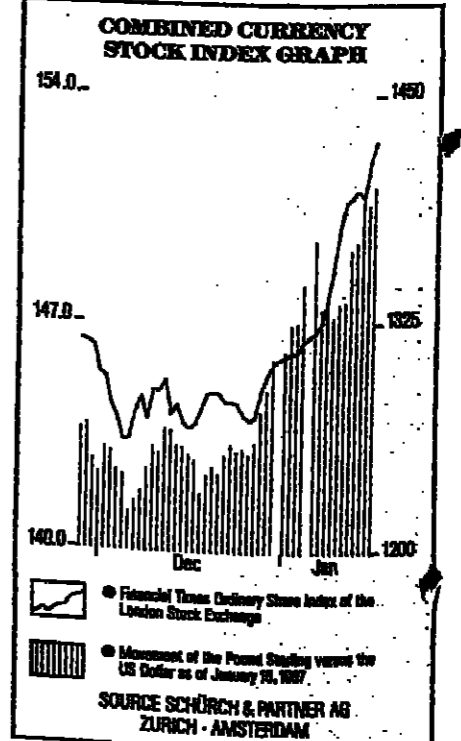
Severe weather failed to discourage a surge in share prices over the past week on the London Stock Exchange.

Milan

Milan's COMIT index rose by 2.09 percent to 729.46 points last week, canceling out losses caused by the crisis in the European Monetary System.

Paris

Prices on the Paris Bourse advanced 2.5 percent last week, with the CAC index moving up to 417.5 from 407.2.



LANGUAGE

Some Arcane Prolepses

By William Safire
WASHINGTON — One of the last of the leading personalities of World War II visited Taiwan last month. Madame Chiang Kai-shek, 86, was asked by her stepson, President Chiang Ching-kuo, to issue a statement endorsing his political reforms.

media should be ashamed of its liberal bias. (In that last sentence, the prolepsis is the unfair assumption of her likely argument, and the paralepsis is the saying of what is said to go without saying.)

John Adams's Eclectic Music

By K. Robert Schwarz
New York Times Service

NEW YORK — At first glance, the music of John Adams appears to consist of irreconcilable elements. Long an admirer of Minimalism, Adams has absorbed and personalized a musical language that derives from that of Steve Reich. Yet he has taken the Minimalist heritage and dispensed with its austere austerity, employing its gestures within a highly expressive, almost Romantic context.



Romantic Minimalist composer Adams: "I embrace the whole musical past."

His path toward modernism was disrupted, partly by his move to San Francisco in 1972. First, he became fascinated with John Cage and chance processes; next, he experimented with electronics; finally, he discovered the music of Steve Reich, which made the most profound impression.

shocked when "Grand Piano Music" proved to be irreverent and even parodic, filled with echoes of marching-band music and an almost perverse diatonicism. Adams, however, still defends "Piano": "I truly love it, and in the long run, people will find more outrageous originality in it than in either 'Harmonium' or 'Harmonielehre'."

in China" will receive its premiere at the Houston Grand Opera in October 1987, after moving to the Brooklyn Academy of Music's Next Wave Festival in December.

POSTCARD

An Island of Nutmeg

By Mark Kurlansky

S.T. GEORGE'S, Grenada — So close to South America and so far from the United States, Grenada has remained the Caribbean's perfect little island through coups, revolutions and invasions, or if you prefer, rescue missions.

a drink made from puree of a sea-weed with milk and spices. It tastes like a nutmeg milkshake. The only concession most restaurants make to foreigners is the powerful homemade hot sauce in a pot on the table in a bowl for Grenadians to heap on their food and foreigners to avoid.

MOVING

ALLIED WORLDWIDE MOVING
PARIS: DESROSES
NYC: COMBIE GENERALE
DUBLIN: L.L.S.
FRANKFURT: L.L.S.
MUNICH: L.L.S.
LONDON: AMERICANS
USA: ALLEN VAN LINES

ANNOUNCEMENTS

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16th, POIRE LINDOURNE duplex, terrace, 42 20 94 95

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